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FIRST CONCURRENT RESOLUTION ON THE BUDGET—FISCAL YEAR 1982

COMPLETED
ORIGINAL

HEARINGS

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

NATIONAL PRIORITIES

APRIL 2 AND 6, 1981—ALTERNATIVE BUDGET PROPOSALS

APRIL 8, 1981— { STATE AND LOCAL VIEWS
WASTE, FRAUD, AND ABUSE

Volume III

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U.S. GOVERNMENT PRINTING OFFICE
79-627 O WASHINGTON : 1981

I

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ALTERNATIVE BUDGET PROPOSALS

THURSDAY, APRIL 2, 1981

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The committee met, pursuant to notice, at 2:28 p.m., in room 6202, Dirksen Senate Office Building, Hon. Pete V. Domenici, chairman of the committee, presiding.

Present: Senators Domenici and Armstrong.

Staff present: Stephen Bell, staff director; Gail Fosler, chief economist; William Stringer, senior economist; and Lizabeth Tankersley, minority staff director.

OPENING STATEMENT OF SENATOR ARMSTRONG

Senator **ARMSTRONG**. The committee will come to order, and I am very pleased this afternoon on behalf of Chairman Domenici to welcome two of the most distinguished Members of the other body, Congressman Walter Fauntroy and Congressman Rangel who are here to testify upon the pending budget which we will begin the markup on next week.

And I believe, gentlemen, that you are here on behalf of and speaking on behalf of the Congressional Black Caucus. Before inviting you to proceed with your statement and proceed in any way which seems the best to you, let me apologize for our late start. As I explained before the meeting began, the budget reconciliation resolution is on the floor at this moment. We have just had four back-to-back votes.

Chairman Domenici and the other members apologize for keeping you waiting, but perhaps having had the same experience in the other body, you can well understand what we are going through.

So with that word of introduction, we would invite you either to present your statement or to summarize it or to put it in the record or proceed in any way that seems the best to you.

STATEMENT OF HON. WALTER E. FAUNTROY, A REPRESENTATIVE IN CONGRESS FROM THE DISTRICT OF COLUMBIA, REPRESENTING THE CONGRESSIONAL BLACK CAUCUS

Mr. **FAUNTROY**. Thank you, Mr. Chairman.

I do wish to submit our entire statement for the record at this point, including the Constructive Alternative Budget which the Congressional Black Caucus has offered to the Congress and to the American people.[1]

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[1] See p. 260.

I want to take this opportunity to, first, of course, thank you for affording us the opportunity to appear. I am very pleased to be accompanied by my distinguished colleague, Charles B. Rangel of New York, who is third ranking member of the Ways and Means Committee and the one who has given us tremendous leadership in fashioning not only the Constructive Alternative Budget generally but the tax provisions included therein in particular.

CONSTRUCTIVE ALTERNATIVE BUDGET

On Wednesday, March 18, 1981, the Congressional Black Caucus released its Constructive Alternative Budget, the Congressional Black Caucus that is composed of 16 black men and 2 beautiful black women, who working together over the past more than 10 years have been seeking to have the Nation address the basic problems that confront us, problems that just happen to be reflected most acutely in the black experience, the kinds of problems that the President himself has indicated that he wants to address through his economic recovery message and program.

We happen to disagree with the provisions and several aspects of that program, and you may recall that the President when he offered it back on February 18 challenged anyone who did not accept it to come up with a better alternative that offered a greater chance of balancing the budget, reducing and eliminating inflation, stimulating the creation of jobs and reducing the tax burden.

The budget proposal upon which we now testify is one which, in our view, does all of those things and in many ways better than the administration's proposal. For example, we are concerned that we reduce the Federal deficit, and our proposal for fiscal year 1982 calls for a deficit that is $1.5 billion less than the deficit proposed by the Reagan administration.

TAX RELIEF

With respect to tax relief, we certainly feel the need to provide the kinds of incentives, both at the individual and corporate levels in the country, that will not only promote capital formation and savings but the productivity and reinvestment in plant and equipment that we think are required if we to deal with our very serious problem of remaining competitive in the world economy.

And so we provide some $39 billion in tax relief, 22.7 percent in tax relief to the 60 percent of the American people who are of low- and moderate-income and who take the standard deduction. We give them both an incentive to work and an incentive to save.

And additional $16.3 billion in depreciation reforms that are designed to increase business investment and productivity as well as a tax credit for social security taxes paid by employees.

Our constructive alternative is based on our belief that the Reagan proposal places a disproportionate share of the burden of fighting inflation through these budget cuts on the poor and those who are already hardest hit by our Nation's economic problems, those served by the social safety net programs as well as small businesses which employ 90 percent of the workers in America.

TAX PROGRAM WILL STRENGTHEN SOCIAL SAFETY NET

So we attempt to remedy that situation by some creative and, we think, timely tax reform. We offer a tax program which will not hurt the rich while strengthen the social safety net and expending opportunities for small businesses to employ far more people than do the major corporations, and in restoring the $27.4 billion in cuts which the President proposes, the Congressional Black Caucus raises an additional $27.1 billion in revenues by closing certain tax benefits for the more affluent citizens of our nation.

CHILD NUTRITION AND FOOD STAMP PROGRAMS

So you will note in our prepared statement that we think there is something callous about a situation in which we say to children who are benefiting from the free lunch program that the Nation must take $1.5 billion from your program, as Mr. Stockman recommends, while at the same time we continue to treat the more affluent of the country to a sizable $3 billion free lunch that we call the three-martini lunch.

So we suggest that we just take half of that, $1.5 billion, and restore the child nutrition program. The Stockman proposal provides for a cut of some $1.8 billion from the food stamp program, and rather than take that callous and cold and, we believe, dispassionate view of the needs of people who have been faced for the last 2 years with a rate of increase in the cost of food of 10.2 percent per year that you shall do without that $1.8 billion while we continue to allow domestically based corporations not to pay taxes as a result of the domestic international sales corporation provision, the DISC provision, which with a little sacrifice on the part of our major corporations would result in our being able to feed the 22 million families that are touched by our food stamp program.

And you see listed on our summary page—which I would certainly wish, at this point, to enter into the record—what our view here is.[1]

Let me just, finally, say, Mr. Chairman, that you will note that our constructive alternative budget is based on a different assessment of what our Nation's problems are than that which the administration proposal suggests and, therefore, we come up with a different solution.

CUTTING GOVERNMENT SPENDING, TAXES, AND REGULATIONS WILL BE INFLATIONARY

On the question of the economy, I need not remind you that we have been treated to the analysis that our problem in the country with inflation and unemployment is really a function of too much Government, too much Government spending, too much Government taxation, and too much Government regulation.

And in its simplest form, the administration proposal is one which cuts, therefore, Government spending and cuts Government taxes and cuts Government regulation. We believe that those policies will be ultimately inflationary and place more people on the

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[1] See p. 347.

Federal dole and place more people among the ranks of the unemployed.

FAILURE TO REMAIN COMPETITIVE IN WORLD MARKETS

We have pointed out that our analysis is that our basic problem is that over the past 15 or more years we have been experiencing a steady decline in economic performance in this country in manufacturing output and in product design, that in sector after sector in this economy we are producing insufficient quantities of poorly designed products at too high a price, and when you do that, not only does the world no longer buy what you make, but we are not buying what we make, and one has to but review the new vocabulary that has become so popular in America to recognize that our problem is not with low-income mothers who have been able to go to work because of the child care programs, day care programs that the country has made available to them, but rather our failure to remain competitive in world markets which have created traditionally millions of jobs for Americans, jobs which are now being done elsewhere in the world. Whether you are talking about a Datsun or a Toyota or a Kawasaki or a Suzuki or Sanyo or Panasonic or a Seiko watch or a Nikon camera, we see very clearly what the nature of our problem is and what we view our solution to be is one which rewards those businesses and industries which remain competitive in the areas of high inflation and that put our people to work producing that which is in short supply in this country.

SOCIAL, ECONOMIC, AND POLITICAL PROBLEMS

Finally, we do take strong exception to the apparent assessment that our problems in the world lend themselves to military solutions. The fact is that, in our view, our problems in the world are essentially social, economic, and political in nature and require social and economic and political foreign policy initiatives to resolve and we feel that we have but to reflect upon the fact that just this past year a little nation in the Middle East held 53 of our diplomats and personnel for 444 days, and all of our nuclear submarines slipping around in the water around the world and all of our B-52 bombers ready to fly and all of our ICBM missile silos around the globe could do nothing to the situation because, at rock bottom, it was a social, economic, and political situation that requires certainly a secure America but not a dominant America, an America that wishes to dominate the world militarily.

And so you will note that our specific proposals run to maintain a strong national defense with increases proposed by us in the salary for military personnel so that many of them will no longer have to remain on food stamps in order to be properly nourished in this country, but at the same time we call for the elimination of what, in our view, are militarily unnecessary and expensive hardware like the MX missile.

With that, Mr. Chairman, I would be very pleased to yield, if I may, to my distinguished colleague, Mr. Rangel, whose experience on the Ways and Means Committee has been of great value to us as a caucus and we believe of great value to the Nation as a whole.

Senator **Armstrong**. Thank you, Mr. Fauntroy. We would be very pleased to hear from Mr. Rangel.

STATEMENT OF HON. CHARLES B. RANGEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK, REPRESENTING THE CONGRESSIONAL BLACK CAUCUS

Mr. **Rangel**. Thank you for hearing us, Mr. Chairman. We would like to believe that the President's economic recovery package was really given to us in order to create an atmosphere in this country that something has to be done.

In the final constitutional analysis, the responsibility, of course, remains in the House and the Senate, and more specifically with the Budget Committees of both Houses.

While testimony has been given by the administration and economists throughout the Nation, nothing that we have heard would allow us to believe that these severe budgetary cuts would have any impact at all on inflation. Indeed, even if it would tend to reverse inflation, certainly the proposed sharp increase in military spending coupled with such a large tax reduction package would lead us to believe, at least on the Ways and Means Committee, that if we allowed the package to remain as proposed, it would have a marked inflationary impact.

Nevertheless, since we have this responsibility, it just seemed to us that adjustments could be made that would be consistent with our concern for the more disadvantaged people in our country. We know that some of these suggestions, legislative suggestions, once enacted, would be almost irreversible.

Our aged folks and poor people are not going to just disappear because the responsibility for their welfare has been shifted to a large extent to local and state Governments. Reduce the amount of Federal funds, yet no one from the administration has been able to point out how these funds would be targeted to make sure that they would be used against fraud and mismanagement.

And where we found this type of thing, the Congressional Black Caucus has taken the position that the program should be eliminated rather than the moneys reduced because it just means a reduction in the benefits to the people that have been designated to be the beneficiaries.

This is an historic moment in our Nation's history. It is a revolutionary time, and I think the President has succeeded in capturing the imagination of the people in knowing that we have to change our consumption habits, and we have to give relief to our productive taxpayers and become more competitive.

But I certainly would hate to see that the Congress participated in making these drastic type of changes without having the administration locked into office long enough to really have a feel for the impact these cuts will have on our people.

I do not envy the responsibility of the Budget Committees. I certainly hope that we exercise our prerogative as a branch of Government to not just accept, but to refine and to do what the President has challenged us to do; that is, to come up with alternatives. That is what we have done in the Congressional Black Caucus, and we do hope that this committee might review them in a positive light.

CONSTRUCTIVE ALTERNATIVE BUDGET DETAILS RECOMMENDATIONS

Senator **Armstrong**. Mr. Rangel, I appreciate that. In fact, as you were speaking, I was leafing through the "Constructive Alternative Budget" which was submitted by the Congressional Black Caucus and which we are pleased to have before us in this committee.

And I could not help being impressed with the scope and detail of the recommendations that you have presented. I do not know the extent of the staff that is available to the Black Caucus but I have some idea of what the magnitude is of wrestling with the budget document, and while I have not had a chance to review it in detail, I compliment you for giving us the kind of a presentation that comes right down to specifics.

It is awful easy, as we all know, to generalize and to get off into a rhetorical never-neverland, but when you really put the numbers on paper and apply them to specific budget functions, it sharpens the issue very quickly, and I am grateful to you for that.

THREE-MARTINI LUNCH

I would like to just raise one question. I am intrigued, I must say, by the suggestion that we can pick up $1.5 billion out of the three-martini lunch, and I am not familiar with exactly how that would be done, and I would be glad to know it.

I happen to be a member of the Senate Finance Committee and I might very well be interested in joining somebody in sponsoring legislation along that line, but I do not know exactly how to get at it.

Mr. **Rangel**. Well, it was our understanding when this legislation came before the Ways and Means Committee last year that it would be, and that was, of course, a different administration, a tremendous revenue gain if we did not allow the type of deductions to business as we do under the present tax system.

CAP BUSINESS ENTERTAINMENT EXPENSES

Senator **Armstrong**. Is it just contemplated that luncheon expenses, business entertainment expenses generally would be disallowed?

Mr. **Rangel**. It would put a cap on the amount. We would reduce the deduction by 50 percent. It would be a cap on the amount of entertainment and business expenses or entertainment and restaurant expenses that could be attributed to business.

And it was our feeling that if, in fact, these expenses were, indeed, connected with business, it would not have an adverse effect because it was necessary for them to do it.

Senator **Armstrong**. So the proposal would not cap the amount. It would just say whatever the amount of the expense was that only 50 percent of it was deductible?

Mr. **Rangel**. Exactly.

Senator **Armstrong**. I see. And the revenue gained from that is $1.5 billion.

Mr. **Rangel**. Those were the projections that we had. Of course, as I said in the early part of my testimony, it is hoped that the President merely wanted to attract our attention to some of the programs that we were supporting that had got out of hand. We in the Congressional Black Caucus, looking down the tremendous list of revenue shortfalls that we have in the existing tax system, feel that we could win our argument if we could focus on some of the so-called tax incentives that are in that system and compare it with some of the severe reductions that they were talking about on the spending side of the budget.

Our major problem, Mr. Chairman, has been that the Budget Committee in the House, and perhaps in the Senate, has tried to treat these packages separately as though there was no connection between the track that dealt with tax packages and the track that dealt with budget cuts. We just cannot see how we can look with askance at a 43-cent school lunch and at the same time not even look at the question of the revenue shortfalls as a result of the business deduction for the so-called three-martini lunch.

RELATIONSHIP BETWEEN BUDGET DEFICITS AND INFLATION

Senator **Armstrong**. I appreciate your thoughts on that. One other matter. I know that you both have other things to attend to this afternoon, but I wanted to just be sure that I understood your observation about the relationship between budget deficits and inflation.

At one point, it seemed to me that you were saying there was little or no relationship or perhaps I misunderstood. Is it your position that the economic assumption that budget deficits cause inflation is untrue or unproven, Mr. Fauntroy?

Mr. **Fauntroy**. Yes. We noted with some great interest last year that when it was suggested that we balance the budget this year that our Congressional Budget Office noted for us that if you balance the budget last year, we would have reduced inflation by two-tenths of 1 percent in a trillion-dollar economy, and the Joint Economic Committee observed this year that if we provided all of the accelerated depreciation and business tax deductions that have been recommended by the President that we would increase productivity by only four-tenths of 1 percent.

So that I think the objective record is that the balancing of the budget ploy is more a psychological one than one of substance. Nevertheless, we have gone along by recommending a smaller deficit than the President proposes and by, most importantly, sharing the responsibility for the belt-tightening with many in the affluent sector.

I did not state in my presentation the fact that we looked at the $1.8 billion that has been recommended to be taken from food stamps and the $1.1 billion that has been recommended to be taken from the medicaid program which meets the needs of the neediest of the needy. We put that together and we came up with $2.9 billion, and we wondered why, with the enormous profits that our major oil companies are making these days and why with recently provided deregulation we need to continue them on oil depletion allowances, when with that amount, $2.9 billion, we could restore the health care and food stamp programs that have been recommended for cuts.

INFLATION NOT ONLY CONGRESSIONAL PROBLEM

Mr. **Rangel.** We do not really believe that inflation is just a congressional problem. We sincerely believe that we cannot ignore the interest that we are paying on the indebtedness that this country has contracted.

But when we look at the overall budget and we look at the $48 billion we are talking about in cuts in services, and then look and see what our dependency on foreign oil is costing us, and what we intend to pour into the economy through tax incentives we have not found any economic or psychological assumptions that would reliably indicate that rich folks are going to invest and poor folks are going to consume.

So what we are saying is that while every expenditure certainly has an impact, we believe that the impact of social spending does not compare to the inflationary impact that the proposed income tax cuts or the increased defense spending would have.

INCREASE PRODUCTIVITY IN WORLD COMPETITIVE AREAS

Mr. **Fauntroy.** I would observe, moreover, that Japan has a deficit, I believe, of roughly 5 percent of its gross national product. Ours must be about 3 percent. They import all of their energy, all of their oil, and yet they are not experiencing the inflation that we are experiencing.

I think that kind of situation is remedied only by increased productivity in areas where we can be world competitive and by getting out of what we call sunset industries and business enterprises where, quite frankly, the formerly Third World underdeveloped nations are, in fact, taking over many of the functions performed traditionally by Western powers generally and by the United States in particular.

Senator **Armstrong.** Mr. Chairman, in your absence, we have had a very interesting exchange, and the gentlemen from the House, on behalf of the Congressional Black Caucus, have submitted some extraordinarily interesting testimony, and I think you will be pleased to note a very detailed summary of their views on the budget, and as I have just complimented them and I will report to you that instead of merely giving us a lot of rhetorical generalities, they have documented in quite specific terms exactly where their proposal differs from that of the administration.

I think as you have time to review their testimony, you will find it to be very useful. If I may, before I turn the gavel over to you, just say, gentlemen, I found this most interesting, and I appreciate it.

There is much in what you have said that I would personally not share, but it seems to me that it is useful for us to have a really head-on clash of the ideas that are being advocated by the administration with alternative points of view, including those that you have brought forward today.

I compliment you for your contribution to the process, and I think it is a helpful dialog. We have had a good hearing, Mr. Chairman.

OPENING STATEMENT OF CHAIRMAN DOMENICI

Chairman DOMENICI. Thank you very much.

Let me indicate to both of you that my absence when you opened your testimony should not be taken as any indication that I am not genuinely interested and concerned and that I want to hear what you have to say.

I guess you know that we have been on the floor for 6 days, and to accommodate a lot of people, we are trying to finish by 7 o'clock. We might not even do that. And for the most part I expected to be there, but I wanted to come back and tell you that personally, both of you, because I share what Senator Armstrong has said, and I want to have a few more words with you.

Let me on behalf of the committee thank you for your presentation. I think the most significant thing is that you have basically produced what President Reagan said those that did not agree with his should do. You have an alternative.

To my knowledge, I say to both of you and to those that you represent, I have seen no other alternative. I have seen an alternative tax proposal, and I think you all have. I have seen suggestions that there be three or four or five changes here or there. But I really do not believe there is a single publicly disclosed, total alternative, and I think you ought to be very proud of that.

It is probably quite obvious to both of you that your proposal in its entirety will not pass, but I think some parts of it certainly may have an impact before this entire year's events conclude.

TRANSITION PROBLEMS

From my standpoint, I want you to know that I have great concern about the transition from the way we have done business to what the new policies will yield in the event the entire presidential package is adopted.

I do believe we can, indeed, but for that transition with a stimulated economy and some other adjustments, that certainly Congress has the latitude to do in years, I think we will find that we did not solve the problems of our poor or our minorities to a maximum with the previous policies.

But even though I do not think your program would be adopted in its entirety, I would say that I, as one Senator and as chairman of the Budget Committee, as we meet regularly down the line, I certainly would be interested in the Congressional Black Caucus' notions about transition.

I think there are some serious transition problems in going from mass transit to no mass transit; from a rather significant public service job component in CETA to none of that, although there will be $5 billion or more in CETA, I mean, the public service jobs goal; from 52 categorical grants in education to a block grant to the States with a significantly total amount available.

I think those are rather traumatic in a short period of time, and I do think we need to do some thinking about either some transition funds, some transition pools of money, some rather broad latitude on the part of administrators to work intergovernmentally with governors and mayors during that transition with some resources to bridge the gap, and I will remain an advocate of that.

We have not provided for the money in the budget, but that is not our role. We can find it within the functions, and as the legislation develops, try to provide some of this by way of transition.

MILITARY PROPOSAL

So I want to thank you for what you have done. I would say that as far as the social programs and the tax programs, I think obviously you have one view and the President and others have another. I am a little bit concerned about the military aspect of your proposal.

I do think because the military costs a lot of money, hardware costs a lot of money, I cannot share your conviction that we can get along with so much less in this very dangerous world.

The others are a matter of social policy, I think, but I think the military is a very dangerous one, and I just would like to close on that note. That is just my own personal observation as a Senator and chairman of this committee.

Now, I have talked too long. I certainly would like either of you to say a few words back at me if you care to.

ELIMINATION OF CETA JOBS

Mr. **FAUNTROY**. Well, I would like to begin, Senator, by commending you for your concern on the transition that would be required by implementation of the administration's proposal. For example, 1,100 CETA employees in our Nation's capital were informed last week that as of tomorrow their jobs, authorized and appropriated to last through September 30, 1981, will be terminated as of Friday at the close of business.

I had occasion for them to come to me to see, first of all, whether or not this was an illegal impoundment and I did inform them that our colleague, Augustus Hawkins, the ranking member of the House Education and Labor Committee, had introduced House Resolution 111 requesting that we go on record as opposing the deferral of appropriated funds for fiscal 1981.

We had to address this question of transition. They had a march on last Saturday in Lafayette Square saying, "We do not mind losing CETA jobs. But where are the jobs in the private sector that you promised would be there?"

And I would hope that you would remain vigilant in raising the question of transition. We, in the Congressional Black Caucus are for jobs and economic security for all Americans, and it just happens that the lack of jobs reflects itself most accutely in our experience, as we are generally twice the rate of the unemployed.

But we would welcome jobs in the private sector where five out of every six jobs exists in the country, but to terminate CETA and public service jobs without the transition smoothly prepared is to increase enormously the burden upon the poor and those who have not moved yet into the mainstream of the American economy.

LACK OF PARTNERSHIP BETWEEN JOBS AND THE PRIVATE SECTOR

Mr. **RANGEL**. I see a direct relationship, and sometimes you have to use your imagination with these proposals, such as the national defense and what we do with these nutrition programs. I do not know whether black folks are more patriotic or whether they have just depended on the Armed Forces a lot, but hardly anyone I know that has entered professional ranks has not seen combat or been a beneficiary of the GI bill.

And if you take a look at what comes home from our wars, the bodies that are in those plastic bags, for a variety of reasons, the minorities are in those bags out of proportion to their number in the population.

And if we are to continue to play that role as defenders of America on foreign shores, it seems to me that the number of able-bodied men that are rejected because we have not invested in health programs and nutrition programs is too great. If we are talking about the private sector, we cannot get into that sector unless we are productive, unless we are trained, unless we have the skills, and we cannot have it both ways. We cannot cut out the resources to make this possible and at the same time say, "Stand on your own two feet, and get Government out of the local and State situation and let the private sector do it."

I introduced legislation yesterday, and I know that I will get at least a sensitive ear in the Ways and Means Committee as it relates to the President's enterprise zones. I certainly will be using whatever vehicle has been offered to us by the administration in trying to get some type of partnership between jobs and the private sector. The public school system has failed us, and because we do not have the linkage in terms of breaking through, it seems to me that we may have to provide some incentives for the private sector to make up for that slack.

And so when we talk about national defense, I just cannot help but believe that a strong America means that its people are strong and have confidence that they can depend on their Government.

ADMINISTRATION DOES NOT REALIZE IMPACT FROM PROGRAM CUTS

And, again, Mr. Chairman, if you want to talk about waste, fraud, and mismanagement, you have allies in that struggle, even if it means wiping out entire programs. However, we just do not really believe, and that is why we are so dependent on you and your committee, we do not believe that the administration has been in office long enough to really know the sharp impact that these cuts are going to have and the fact that the problems and the people are not going to go away.

To shift the responsibility to State and to local governments does not mean that it is not going to have an inflationary impact, because someone is going to pick it up. I am glad that you have met us halfway in saying that you are willing to listen, and we in the Congressional Black Caucus are willing to work with you and your committee and the administration to see that people do not fall between the cracks merely because we have a political goal that we all want to achieve.

Chairman **Domenici**. Thank you very much.

Mr. **Fauntroy**. Thank you.

Mr. **Rangel**. Thank you.

Chairman **Domenici**. As I understand it, the chairman of the Joint Economic Committee is required by the Congressional Budget Act to appear and I understand that, Senator Jepsen, you will follow Chairman Reuss with your individual comments, is that correct?

Senator **Jepsen**. That is correct for two reasons. He is chairman of the committee and second he is our honored guest.

STATEMENT OF HON. HENRY S. REUSS, CHAIRMAN, CONGRESSIONAL JOINT ECONOMIC COMMITTEE, AND A U.S. CONGRESSMAN FROM THE STATE OF WISCONSIN

Mr. **Reuss**. It is awfully good to be here, Mr. Chairman and my old colleague, Senator Armstrong, and with the Joint Economic Committee, Mr. Chairman, you get two for the price of one. We are admirably divided: 10 Republicans, 10 Democrats, and I find it a great joy to work with my cochairman, vice chairman, or whatever Roger Jepsen is, and we work together fine.

We do not necessarily come to the same conclusions on everything, but that could well be healthy.

I would like to submit, pursuant to the statute, our 1981 Joint Economic Report,[1] containing the views of both Senator Jepsen's group and my own Democratic group, together with a statement I made a couple of weeks ago on March 9 to the House Budget Committee.[2]

MONETARY POLICY LEFT OUT OF ADMINISTRATION'S PROJECTIONS

Then I would like, if I may, to proceed, briefly, and then I know Senator Jepsen will want to give his views.

I really have just one point to make pursuant to our statutory duty to come before your Budget Committee once a year after we have looked at the overall situation. The Joint Economic Committee's outlook on life is a little different from that of the Budget Committee, in that we must think heavily about monetary policy as well as about spending and taxing, which are your two major functions.

And the point I wish to make, and there is just one point, is simply this: That so far, the projections made by the administration, and the Congressional Budget Office, and Data Resources, and Wharton School, and all of the other econometric projections, have left something out.

The administration's exercise really left out the exact nature of monetary policy. We have asked them several times for exactly what assumptions regarding the monetary aggregates they cranked into their computers, and we have not gotten an answer, and I am not sure there is one.

Equally, the other organizations, public and private, have departed a bit from the scenario based on some assumptions. For instance, these private organizations do work for businessmen so they make some assumptions on what Congress is going to do.

Congress is going to add perhaps to social spending a bit, and perhaps it is going to cut military spending or vice versa. It is going to change the tax program a little bit. They make those assumptions. They also make assumptions about monetary policy and crank them out, and so we have a variety of views before us.

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[1] See U.S. House of Representatives, 97th Congress, 1st session, Report No. 97-5, Mar. 2, 1981.

[2] See p. 348.

I, and some Members of this body, the Senate, thought it might be useful to put into the computer precisely the administration's program, without any assumptions about changes that are going to be made in it.

I might add, Mr. Chairman, I share your pride in your Senate Budget Committee for your complete obedience to the statute and the timetable and the drill and the exercise, and while I do not say I would have voted with you on every vote on the Senate floor, you gave everyone a chance to vote, and I think it is vindicating the budget procedure, and I am proud of what you are doing.

FIVE-YEAR PROJECTIONS

Now, included in your duties when you present your budget resolution is to make a 5-year projection of revenues, expenditures, and deficits or surpluses in the budget, and it is that on which I put my mind this afternoon.

We asked our committee staff, headed by our deputy staff director, Mr. Richard Kaufman, to put into the computer the exact administration assumptions, military increases, their nonmilitary decreases, their exact depreciation and income tax rate cuts and their exact timetable.

I might add that the interesting variant of that theme which I believe you, Mr. Chairman, tentatively threw out yesterday, would not affect the outcome of our computer printout in any appreciable way.

We also put into the computer, lacking an administration money supply figure, the top of their target, that is to say, M2, the most common measure. This is supposed to vary between 6 percent and 9 percent this year and to go down to one-half of that over a 5-year period. We took the top. We took 9 percent, to give the benefit of doubt.

We also were a little more generous than the administration in what we thought the savings rate would be. If we erred, we erred on the good side there. At any rate, the results of this computer printout—I think it is the first one that has been done of the administration's program if it were followed in every particular—the results are disquieting, because they show that far from reaching a balanced budget in 1984, we would still have a deficit in 1984 on the order of $111 billion. These are set forth in my statement.

The growth rate of real GNP, under our view, rises a little bit in 1982, which is fine, but then it declines to 2.8 percent, a little more than one-half of the administration's forecast.

The Consumer Price Index declines from 11.5 percent to 7.8 percent, somewhat over the administration's figure but still considerably unsatisfactory, particularly if you look at the underlying core rate which remains about where it is now.

Unemployment stays about where it is now, at 7.3 percent. That is about a percentage point higher than the administration projects.

Chairman **Domenici**. Mr. Chairman, would you permit? I have been called back to the floor. Senator Armstrong will continue the hearing. I want to thank you both for appearing.

I did hear about the result of your computer run yesterday. Senators Bradley and Biden exposed it to the Senate as part of the debate yesterday. We will look at it. It will get the attention that we can give it between now and next Tuesday and Wednesday, and we will have our economic people look at it, and I thank both of you for appearing, and I hope you will understand my absence.

MORE CONSERVATIVE BUDGET PROJECTED

Mr. REUSS. I certainly do. And we are very grateful that you were here.

I will finish up very briefly, Chairman Armstrong, to say that while it may not be possible because we come with this to you a week before you have to produce your first concurrent resolution, it may not be possible to factor that in, there is another current resolution down the line this summer as you well know, and I would hope that as the weeks go on, you could have your excellent staff look at it.

If it is valid, and I can assure you that this represented our best effort, if it is valid, that suggests that the 5-year projection should call for a fiscally more conservative budget, that is to say, more spending cuts or less tax reductions, or some combination of the two on which I will not comment now.

In saying this, let me conclude by saying that these fears on our part are not just partisan Democratic fears, that two newsletters of two of the leading New York banks which reached my desk within the last day or two, that of the Morgan Guaranty and that of the Manufacturers Hanover, take almost precisely the same view that so stringent is the monetary policy which faces us that unless we take some of the burden off of monetary policy by running less of a deficit, we are going to be in a situation where the goals are not met at all and where we end up in 4 years with bad unemployment, bad inflation, and an intolerable deficit.

It would be entirely in order for this great committee to weigh that and if you find it worthy, I would hope that you could set your colleagues in the House and Senate straight so that in our spending actions and our taxing actions we can do the right thing.

And I am most grateful.

Senator ARMSTRONG. I appreciate that very much, and we are eager to hear Senator Jepsen's statement. May I ask if you would share with me the newsletters you just referred to. I have not seen those, and I am interested in the subject.

MULTIYEAR TAX CUTS NEED TO BE WATCHED

Mr. REUSS. Yes; I will offer them both for the record,[1] and let me just conclude with the last sentence of Morgan Guaranty's, which is sort of advice to us. It says:

> Concern about the potential conflict between fiscal and monetary policy should alert Congress to the danger of responding inadequately to the President's challenge to cut spending and at the same time of responding incautiously to his plan for multiyear tax cuts.

Well, that is a polite way of saying that multiyear tax cuts are something that has to be very carefully watched because they might presage a budget deficit down the line, and we think they do, which will make interest rate so high that the goal we all want will not be attained.

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[1] See pp. 354 and 366.

But I am very happy to leave these with you.

Senator **Armstrong**. Thank you. I appreciate that so much. I just want to clarify one thing, and then we will ask Senator Jepsen to proceed.

It is your conclusion or the conclusion of the Democratic members of the JEC that the President's budget which he says will result in a budget surplus of something around $500 million to $1 billion in 1984, using the same set of numbers but slightly different economic assumptions, you believe it will result in a deficit of $111 billion for that 1 fiscal year?

Mr. **Reuss**. Precisely, for 1984.

Senator **Armstrong**. Thank you.

[Statement of Mr. Reuss follows:]

STATEMENT BY

HENRY S. REUSS, CHAIRMAN
JOINT ECONOMIC COMMITTEE

Before The

SENATE BUDGET COMMITTEE

Thursday, April 2, 1981, 3:00 p.m.
6200 Dirksen Senate Office Building

It is a pleasure to appear this afternoon before the Senate Budget Committee to present the 1981 Annual Report of the Joint Economic Committee and to discuss the economic program of the Reagan Administration.

It is the statutory duty of the Joint Economic Committee to appear before the Budget Committees of both Houses and to present a report giving our views on the budget process. To fulfill that obligation I am submitting for the record a copy of the Joint Economic Committee's Annual Report and a copy of my statement before the House Budget Committee on March 9.

It is the Budget Committees' responsibility to focus on the mechanics of fiscal policy -- on how and where to cut spending and on how and when to cut taxes. In our own work, the Joint Economic Committee has to bring a broader perspective to bear. It is our role to analyze the relationships between all aspects of economic policy and in particular between taxing and spending policy on one hand and monetary policy on the other.

It is in this relationship between monetary and fiscal policy that the Administration's economic program runs into difficulty. As presently designed, the proposed tax and spending programs are likely to place an unbearable burden on monetary policy. The tax reductions, if fully enacted, will severely diminish Federal revenues beginning in 1982 and for every subsequent year. The projected spending cuts, while significant at first, will shortly be reduced by sharp increases in defense spending and by automatic, unwilled increases in programs such as unemployment compensation, and in sharply increased interest costs on the national debt. This is so because the stringent monetary policy the Administration mandates prevents realization of the Administration's growth projection. The inevitable consequence will be a very large budget deficit. And this budget deficit will play havoc with either inflation or unemployment, depending on how the Federal Reserve responds.

If the Federal Reserve accommodates the budget deficit, the effect will be a continued inflation, high inflation-induced interest rates, a deteriorating trade balance, and an unstable dollar. If the Federal Reserve instead refuses to accommodate the increased deficit, then the effect will be super-high interest rates, depressed housing, investment and small business, and continued high unemployment and economic stagnation. The only way to avoid imposing this Hobson's choice on the Federal Reserve is to avoid a loose fiscal policy in the first place.

The Joint Economic Committee staff has just prepared a simulation study of the US economy through 1984 which illustrates the dilemma of the Administration's economic program. The study assumes that the Administration's proposals are fully adopted and implemented without modification, including both the proposed fiscal policies of the Administration and the monetary policy stipulated in the President's "Program for Economic Recovery" of February 18.

Our methodology thus differed from all private forecasts reported to date in several respects. Most of the forecasts have assumed that the Reagan program will be substantially modified by Congress -- that only part of the President's tax policy will be enacted, that not all of the budget cuts will pass, and that monetary policy will be less restrictive than that advocated by the Administration.

The JEC study assumes all the tax and expenditure policy initiatives proposed by President Reagan are adopted by Congress. The nondefense expenditure reductions and the defense expenditure increases proposed in the March 10, 1981 budget revisions were incorporated into the simulation. All of the President's tax proposals were also used. They are: a 10 percent across-the-board cut in personal tax rates beginning July 1, 1981 and additional

10 percent cuts for each of the following two years, and an investment tax incentive reduction along the lines of the Jones-Conable (10-5-3) proposal, retroactive to January 1, 1981.

Finally, the JEC study assumes achievement of the monetary targets for 1981 announced by the Federal Reserve Board and reductions in the rate of growth of the money supply for the years 1982-1984 in accordance with the President's message to Congress, A Program for Economic Recovery, delivered on February 18, 1981. In his message the President said that the Administration's economic scenario "assumes that the growth rates of money and credit are steadily reduced from the 1980 levels to one-half of those levels by 1986." The JEC study was performed with the Data Resources, Inc. model of the U.S. economy. The results are summarized in Table 1.

The results of the Administration's fiscal and monetary policies taken together are a weak recovery from the slump in 1980 and ever increasing deficits.

1. On a National Income Accounts basis, the deficit reaches $111.5 billion in 1984.

2. The growth rate of real GNP rises from 1.5 percent to 3 percent in 1982 but then declines to 2.8 percent in 1984 -- in contrast to the Administration's forecast of 4 - 5 percent in growth in each of these years.

3. The Consumer Price Index declines from 11.5 percent

to 7.8 percent -- but its growth rate remains 2.3 percentage points higher in 1984 than the Administration projects.

4. The present high rate of unemployment changes only slightly from current levels and is at 7.3 percent in 1984 -- .9 percentage points higher than the Administration projects.

5. The rate of growth of industrial production falls from 5.7 percent in 1982 to 3.1 percent in 1984.

6. Although the savings rate increases significantly, from 4.9 percent in 1981 to 7.2 percent in 1984, the growth rate for investment and industrial production remain relatively low. The savings rate increase results from the combination of high inflation, high interest rates, and high unemployment which hold down consumption and final sales. In 1984, capital formation as a percentage of GNP is virtually the same as in 1981.

7. Housing starts increase modestly while auto sales stay about the same during the four years.

Where does all this leave us? As we have seen, with the best will in the world, the President's multi-year tax cut coupled with the Administration and Federal Reserve's super-squeezed monetary intentions, projects disaster.

This is not merely the opinion of your witness, who is sometimes styled as a progressive Democrat, it is also the opinion of an increasing array of the nation's conservative economists and financiers. For example, the current Morgan Guaranty Survey reaches the same conclusion as I do -- that fiscal looseness will cause either damnable inflation or damnable unemployment, or both.

What can the Senate Budget Committee, which has conducted itself with such arithmetical precision thus far on the spending side, do about it? The Budget Reform and Impoundment Control Act of 1974 provides that the first concurrent resolution on the budget be accompanied by a report from your Committee which includes "projections, ... for the period of five fiscal years beginning with the estimated levels of total budget outlays, total new budget outlays, total new budget authority, the estimated revenues to be received, and the estimated surplus or deficit, if any, for each fiscal year in such period, ..." Pursuant to that statutory mandate, I urge that you not only resist irresponsible spending, but also what the Morgan Guaranty Survey has called "incautious multi-year tax cuts."

Table 1. EFFECTS OF REAGAN FISCAL AND MONETARY POLICIES - 1981-1984

	Years			
	1981	1982	1983	1984
GNP and Its Components Billions of Dollars - SAAR				
Total Consumption	1894.9	2119.2	2356.2	2615.3
Nonres. Fixed Investment	320.1	363.9	409.1	460.3
Res. Fixed Investment	113.9	149.4	168.9	190.5
Inventory Investment	-3.9	13.0	31.6	29.0
Net Exports	17.8	14.3	16.6	13.7
Federal Purchases	226.4	257.6	286.2	324.8
State and Local Govt. Purchases	367.1	403.8	443.1	490.1
Gross National Product	2936.3	3321.1	3711.7	4123.7
Real GNP (1972 Dollars)	1503.6	1549.4	1594.6	1639.9
Prices and Wages - Annual Rates of Change				
Implicit Price Deflator	10.1	9.8	8.6	8.0
CPI - All Urban Consumers	11.5	10.1	8.6	7.8
Producer Price Index - Finished Goods	9.3	10.5	8.8	7.9
Compensation per Hour	10.5	10.0	10.0	9.7
Core Inflation	9.1	9.0	9.2	9.2
Production and Other Key Measures				
Industrial Production (1967=1.000)	1.544	1.632	1.678	1.730
Annual Rate of Change	5.0	5.7	2.8	3.1
Housing Starts (Mil. Units)	1.432	1.799	1.708	1.875
Retail Unit Car Sales (Mil. Units)	9.6	10.4	10.1	10.2
Unemployment Rate (%)	7.4	7.0	7.2	7.3
Federal Budget Surplus (NIA)	-60.5	-58.3	-80.6	-111.5
Money and Interest Rates				
Money Supply (M-1B)	438.7	462.0	485.1	507.0
Annual Rate of Change	6.2	5.3	5.0	4.5
New AA Corp. Utility Rate (%)	13.10	13.42	12.76	12.36
New High-Grade Corp. Bond Rate (%)	12.72	12.91	12.20	11.82
Federal Funds Rate (%)	14.24	17.01	15.92	18.47
Prime Rate (%)	15.28	16.49	16.02	15.87
Incomes - Billions of Dollars				
Personal Income	2420.2	2715.3	3018.2	3347.5
Real Disposable Income (%Ch)	1.8	3.7	3.7	3.0
Saving Rate (%)	4.9	6.1	7.2	7.2
Profits Before Tax	262.8	291.4	305.0	302.8
Profits After Tax	175.5	194.1	204.9	206.0
Four-Qtr. Percent Change	6.9	10.6	5.6	0.5
Composition of Real GNP - Annual Rates of Change				
Gross National Product	1.5	3.0	2.9	2.8
Final Sales	1.5	2.6	2.5	3.0
Total Consumption	2.7	2.3	2.6	3.0
Nonres. Fixed Investment	-0.2	3.5	3.6	4.6
Equipment	0.0	3.3	3.7	4.7
Nonres. Construction	-0.8	3.9	3.3	4.3
Res. Fixed Investment	-0.2	15.9	2.7	3.3
Exports	-1.2	4.5	5.0	3.8
Imports	1.9	6.6	4.5	6.0
Federal Government	1.3	3.4	1.6	3.9
State and Local Governments	-0.3	0.0	0.4	1.8

Senator **Armstrong**. Senator Jepsen, do you have better news for us? [Laughter.]

STATEMENT OF HON. ROGER W. JEPSEN, VICE CHAIRMAN, CONGRESSIONAL JOINT ECONOMIC COMMITTEE, AND A U.S. SENATOR FROM THE STATE OF IOWA

Senator **Jepsen**. Mr. Chairman, it is a pleasure to appear before your committee today to present the views of the Republican members of the Joint Economic Committee. I would suggest, and I am deviating a little bit from my remarks here, that an admonishment and an answer given by a great American general some years ago when he left a meeting which was a closed meeting and the press kept badgering him as he left, asking him what went on, and the answer he gave might well apply to some of our deliberations, especially in the economics areas.

After sometime of refusing to answer, he finally turned to them and he said:

> Gentlemen, at the meeting today there were some things that were true and there were some things that were new. Those things that were new were not necessarily true, and that things that were true were not necessarily new.

And with that turned around and walked away.

Now, I do have a prepared statement which I will submit for the record and just make a few brief additional comments.

ECONOMIC FORECASTS ARE INACCURATE

Mr. Chairman, in recent days we have heard a lot about the Reagan administration's economic forecast, and about others, such as the one done by the Democractic staff of the Joint Economic Committee, which show different effects from the administration's economic program.

Personally, I find such discussions very unhelpful. If you look around enough, it is not too difficult to find an economist somewhere who can use the computer to prove that sunspots are the main factor controlling the economy.

Moreover, virtually all economic forecasts end up being highly inaccurate more than a year out. Unfortunately, some economic forecasts which carry the most weight here in Washington are those that are the most inaccurate.

I refer to those of the Congressional Budget Office which, according to a recent study by the U.S. Chamber of Commerce, are particularly inaccurate.

Now, the reason for this inaccuracy is fairly obvious. Of necessity, the economic models must assume that people will not alter their behavior from past experience, but, obviously, they do. People are not going to behave the same way in an inflationary environment as they do in a noninflationary environment, nor will they act the same way when they are in the 50-percent marginal tax bracket as they would in the 25-percent bracket.

In other words, to use the assumption that it is going to be business as usual in the next few years in this country, I think, is a very basic erroneous platform from which to launch any type of study.

I think November 4 indicated loud and clear that it is not going to be business as usual in the future of this country, yet the models have great difficulty incorporating changes in tax rates or inflationary expectations which leads them to draw obviously incorrect conclusions about how people will react to policy changes.

FORECAST MADE BY UTILIZING DRI MODEL

For example, looking at the forecast made by the Joint Economic Committee's Democratic staff utilizing the DRI model, we see that it shows the Consumer Price Index falling by about 40 percent, from a 13.5-percent rate in 1981 to 7.8 percent in 1984, yet, at the same time, it shows core inflation at 9.2 percent in 1984, or 1.4 percentage points above the CPI.

Another confusing thing this forecast shows is short-term interest rates rising, while long-term interest rates decline, despite also showing a very substantial increase in the personal savings rate from 4.9 percent in 1981 to 7.2 percent in 1984, and a declining inflation rate.

This rise in short-term interest rates also takes place despite a slower money growth rate, which experience shows will reduce interest rates by reducing inflationary expectations.

I assume that the reason why the forecast shows such seemingly contradictory results is because of the predicted increase in the Federal budget deficit caused by the President's proposed tax reduction program. However, I would point out that the model makes no effort to include dynamic or feedback effects from the particular type of tax reduction being proposed by the President, namely, an across-the-board marginal rate reduction, as opposed to some other type of tax cut such as a tax rebate.

The latter simply reduces Government revenues without producing any supply side effects on the economy in terms of increased work, saving and investment.

In any case, the forecasted increase in the deficit shown by the model is less than the forecasted increase in personal saving, which means that the kind of crowding out effects in financial markets that would lead to an increase in interest rates will not occur even in the context of the DRI model.

And lastly, Mr. Chairman, I would point out that the model assumes a relationship between the money supply and interest rates which clearly no longer exists. It used to be that the Fed could temporarily bring down interest rates by pumping up the money supply, thereby increasing the amount of funds available to be borrowed. However, in time, these increases in the money supply caused inflation which then added an inflation premium to interest rates so that they were higher than they were before.

Today, about three-fourths of any interest rate—three-fourths, Mr. Chairman, of any interest rate today is just compensation for expected inflation. These inflationary premiums are now tacked onto interest rates immediately after the Fed's money supply figures are released because these money supply numbers shape expectations.

So I would say that the historical relationship has now reversed itself. Increases in the quantity of money cause interest rates to rise, not fall, and reductions in money supply growth cause interest rates to fall, not rise.

ANALYSIS SHOWS PRESIDENT'S PROGRAM WILL WORK

In conclusion, Mr. Chairman, I would urge you to be very, very skeptical of analyses showing that the President's program will not work. Examined closely, even an analysis such as the one just done by the Democratic staff of the JEC does not support this claim. Rather, it shows that the President's program will work. It is shown to reduce CPI inflation and long-term interest rates and increase saving and stimulate real growth.

Had a longer simulation period been used, the Democratic analysis would show, in addition, reductions in so-called core inflation and dramatic increases in investment and productivity.

I am confident that in the real world these dramatic increases will occur sooner. Inflation will break and interest rates will fall more sharply than standard econometric forecasts show.

Thank you, Mr. Chairman, for your kind attention.

[The prepared statement of Senator Jepsen follows:]

PREPARED STATEMENT OF HON. ROGER W. JEPSEN, VICE CHAIRMAN, CONGRESSIONAL JOINT ECONOMIC COMMITTEE, AND A U.S. SENATOR FROM THE STATE OF IOWA

MR. CHAIRMAN, THANK YOU FOR THE OPPORTUNITY TO PRESENT THE VIEWS OF THE REPUBLICAN MEMBERS OF THE JOINT ECONOMIC COMMITTEE ON THE STATE OF THE ECONOMY.

AS THE 1980'S BEGIN, THE LIST OF NATIONAL PRIORITIES IS LENGTHENING: INFLATION AND INTEREST RATES ARE TOO HIGH. THEY MUST BE REDUCED. THE NATION STILL IS TOO DEPENDENT FOR ITS ENERGY UPON INSECURE FOREIGN SOURCES. ENERGY DEPENDENCE MUST BE REDUCED. UNEMPLOYMENT, AND PARTICULARLY MINORITY UNEMPLOYMENT, REMAINS HIGH AND HAS DEBILITATING EFFECTS ON THE SOCIAL AND ECONOMIC CONDITIONS OF THE COUNTRY. UNEMPLOYMENT MUST BE REDUCED. AND WHILE THE POVERTY RATE HAS BEEN CUT IN HALF SINCE THE MID-1960'S, THE NUMBER OF PERSONS ACTUALLY IN POVERTY HAS RISEN. POVERTY MUST BE REDUCED. IN ADDITION:

- EVENTS IN AFGHANISTAN, IRAN, POLAND, AND ELSEWHERE HAVE DRIVEN HOME THE NEED FOR A RENEWED COMMITMENT TO NATIONAL DEFENSE. WE MUST FIND THE RESOURCES TO MEET THIS COMMITMENT.

- IN SPITE OF VIGOROUS ENVIRONMENTAL, HEALTH AND SAFETY INITIATIVES, MORE REMAINS TO BE DONE. WE MUST FIND THE RESOURCES FOR ORDERLY PROTECTION AND IMPROVEMENT OF THE ENVIRONMENT, AND THE HEALTH AND SAFETY OF ALL AMERICANS.

- THE NATION'S INFRASTRUCTURE -- ITS HIGHWAYS, BRIDGES, HARBORS, AND WATERWAYS -- ARE IN VARIOUS STAGES OF DECAY. THE PROCESS OF EROSION MUST BE REVERSED.

- FOREIGN COMPETITION IS NOT ONLY INCREASINGLY AGGRESSIVE, IT IS INCREASINGLY EFFECTIVE. THIS COMPETITION MUST BE MET.

THE ANSWER TO THESE PROBLEMS IS FASTER ECONOMIC GROWTH. THE ECONOMY'S GROWTH HAS SLOWED IN RECENT YEARS. CONTINUED SLOW GROWTH WILL WIDEN THE GAPS THAT HAVE OPENED IN RECENT YEARS BETWEEN EXPECTATIONS AND REALIZATIONS, PARTICULARLY FOR MINORITIES. AS A RESULT, A DIVISIVE STRUGGLE FOR INCOME SHARES, WHICH ALWAYS THREATENS, COULD OCCUR. THIS WOULD BE TRAGIC. ALL AMERICANS HAVE A FAR GREATER INTEREST IN THE SIZE OF THE ECONOMIC PIE THAN IN ANY FEASIBLE DISTRIBUTION. MORE RAPID ECONOMIC GROWTH WILL TRANSFORM DREAMS INTO REALITIES, AND NATIONAL PRIORITIES INTO ACHIEVEMENTS.

DEMANDS UPON THE NATION'S RESOURCES ARE GROWING. THESE DEMANDS WILL TAX OUR INGENUITY AND OUR RESOLVE. THEY WILL STRETCH TO THE LIMITS THE NATION'S PRODUCTIVE CAPACITY. IF THEY ARE TO BE SATISFIED, ECONOMIC GROWTH MUST BE ACCELERATED, RESOURCES CANNOT BE SQUANDERED, AND THE PRODUCTIVITY OF AMERICA'S WORKERS MUST RISE.

HEREIN LIES THE RUB: PRODUCTIVITY IS NOT RISING. IT IS FALLING. IN 1980, OUTPUT PER MANHOUR FELL BY 0.3 PERCENT. IN 1979, PRODUCTIVITY DECLINED BY 0.4 PERCENT. WITHOUT INCREASES IN PRODUCTIVITY, REAL STANDARDS OF LIVING CANNOT BE RAISED, IT WILL BE DIFFICULT TO REDUCE INFLATION, INTEREST RATES, UNEMPLOYMENT AND POVERTY, TO BECOME LESS ENERGY DEPENDENT AND MORE COMPETITIVE INTERNATIONALLY, TO REBUILD THE NATION'S INFRASTRUCTURE, CLEAN UP

THE ENVIRONMENT, IMPROVE HEALTH AND SAFETY, AND IMPROVE OUR DEFENSE CAPABILITY.

NO NATION CAN TOLERATE DECLINING PRODUCTIVITY GROWTH -- LET ALONE ABSOLUTE DECLINES IN PRODUCTIVITY -- FOR VERY LONG. TO THE OBVIOUS COSTS OF OUTPUT NOT PRODUCED AND WANTS UNSATISFIED MUST BE ADDED THE POTENTIALLY MORE COSTLY EFFECT OF INCREASED ANIMOSITY AMONG THE NATION'S DIVERSE INTEREST GROUPS. AS ECONOMIC GROWTH SLOWS, STRUGGLES FOR BIGGER SHARES OF A SHRINKING ECONOMIC PIE CAN CAUSE INFLATION TO ACCELERATE, AND WILL CAUSE RESOURCE MISALLOCATIONS AND STILL SLOWER GROWTH, MORE UNSATISFIED DEMANDS, INCREASED ANIMOSITY ACROSS AND WITHIN INCOME GROUPS, AND AMONG LABOR, BUSINESS, FARMERS AND GOVERNMENT. IN SHORT, DECLINING ECONOMIC GROWTH FEEDS ON ITSELF: SLOW ECONOMIC GROWTH ENGENDERS EVEN SLOWER GROWTH.

DURING THE PERIOD FROM 1948 TO 1979, REAL GNP HAS GROWN AT A 3.5 PERCENT ANNUAL RATE. GROWTH OF THE NATION'S STOCK OF PLANT AND EQUIPMENT HAS MADE THE MOST IMPORTANT CONTRIBUTION TO GNP GROWTH, FOLLOWED BY PRODUCTIVITY AND EMPLOYMENT GROWTH. ACCORDING TO TESTIMONY BEFORE THE JOINT ECONOMIC COMMITTEE, 1.6 PERCENTAGE POINTS OF THE 3.5 PERCENT GROWTH RATE ARE ACCOUNTED FOR BY THE GROWTH OF PHYSICAL CAPITAL; 0.8 PERCENTAGE POINTS ARE ATTRIBUTABLE TO THE GROWTH OF EMPLOYMENT, AND 1.1 PERCENTAGE POINTS ARE EXPLAINED BY PRODUCTIVITY ENHANCING DEVELOPMENTS.

THE PROXIMATE CAUSE OF THE DECLINE IN U.S. ECONOMIC GROWTH IS NO MYSTERY. SLOW GROWTH OF THE NATION'S CAPITAL STOCK IS THE CORE PROBLEM. IF THE CAPITAL STOCK HAD GROWN FASTER, PRODUCTIVITY GROWTH COULD HAVE BEEN SUSTAINED, AND THE EXPANDING LABOR FORCE WOULD HAVE BEEN MORE EASILY ACCOMMODATED. HAD THE ECONOMY GROWN SINCE 1974 AT A 3.5 RATHER THAN A 2.9 PERCENT ANNUAL RATE, REAL GNP, IN 1972 DOLLARS, WOULD BE $52 BILLION HIGHER THAN IT IS TODAY, REAL PER CAPITA INCOME WOULD BE 3.5 PERCENT HIGHER, AND THE TRADE-OFFS WHICH WE NOW FACE AMONG SOCIAL, DEFENSE, AND OTHER PROGRAMS WOULD BE LESS SEVERE AND EASIER TO FACE. SIMPLY STATED, WE HAVE LOST A FULL YEAR'S NORMAL REAL GROWTH IN JUST SIX YEARS.

BEHIND THE PRODUCTIVITY AND GROWTH DECLINE

WHAT EXPLAINS THE RECENT DECLINE IN THE ACCUMULATION OF PHYSICAL CAPITAL? THE ANSWER IS SIMPLE: PRIVATE INVESTMENT AND SAVING HAVE BEEN DISCOURAGED, BOTH DIRECTLY AND INDIRECTLY, BY BAD ECONOMIC POLICIES.

BAD MONETARY POLICY IS AN IMPORTANT FACTOR IN THE DECLINE OF CAPITAL FORMATION. IN THEIR EFFORTS TO "FINE TUNE" AGGREGATE DEMAND AND RESTRICT INTEREST RATE MOVEMENTS, THE MONETARY AUTHORITIES HAVE UNDERWRITTEN THE PRICE EXPLOSION THAT HAS ERODED REAL INCOMES, REAL CASH FLOWS, AND THE REAL RATE OF RETURN ON SAVING AND INVESTMENT. WE HAVE HAD THE WORST OF ALL POSSIBLE MONETARY WORLDS: WE HAVE HAD TO LIVE WITH INCREASINGLY VOLATILE PROCYCLICAL SWINGS BOTH IN THE GROWTH RATES OF THE MONETARY AGGREGATES AND IN INTEREST RATES. THESE SWINGS HAVE GREATLY INCREASED UNCERTAINTY. MOREOVER, THE SWINGS BOTH IN MONEY GROWTH AND INTEREST RATES HAVE BEEN OCCURRING AROUND RISING TRENDS IN

BOTH AND, OF COURSE, IN INFLATION AS WELL. IF NOTHING ELSE HAD BEEN WRONG, IT WOULD BE EASY TO SEE HOW BOTH SAVING AND INVESTMENT WOULD HAVE BEEN DISCOURAGED, AND HOW INVESTMENT AND SAVING DECISIONS WOULD BE INCREASINGLY BIASED TOWARD SHORT-TERM PAYOFFS, AND AWAY FROM THE OBJECTIVE OF LONG-TERM ECONOMIC GROWTH AND SECURITY.

BUT THIS IS NOT ALL THAT WAS WRONG IN RECENT YEARS. IF MONETARY POLICY HAS BEEN BAD, FISCAL POLICY HAS BEEN PERVERSE. ON THE ONE HAND, THE TAX BURDEN ON WORKING PEOPLE AND BUSINESSES HAS BECOME OPPRESSIVE. INFLATION-INDUCED BRACKET CREEP HAS REDUCED GREATLY REAL AFTER-TAX RETURNS TO PERSONAL EFFORT, SAVING AND INVESTMENT, RISKTAKING AND ENTREPRENEURSHIP. FOR EXAMPLE, A MARRIED PERSON, FILING A JOINT RETURN, WITH $16,001 TAXABLE INCOME IN 1967 AND THE SAME REAL, INFLATION-ADJUSTED INCOME IN 1980 ($35,920), WAS TAXED AT THE MARGIN BY THE FEDERAL GOVERNMENT AT 28 PERCENT IN 1967, AND 43 PERCENT IN 1980. THIS INCREASING TAX BURDEN HAS TRANSFERRED REAL RESOURCES TO THE FEDERAL GOVERNMENT AND AWAY FROM THE PRIVATE SECTOR. IN ADDITION, DEPRECIATION ALLOWANCES BASED UPON HISTORICAL RATHER THAN CURRENT COSTS HAVE UNDERSTATED EXPENSES AND OVERSTATED PROFITS, RESULTING IN A RISING CORPORATE TAX BURDEN AND A FURTHER TRANSFER OF COMMAND OVER RESOURCES TO THE GOVERNMENT.

THE TRANSFER OF CONTROL OVER RESOURCES HAS BEEN EXACERBATED BY FEDERAL ACTIVITY IN THE CREDIT MARKETS. TOTAL FEDERAL BORROWING -- THE SUM OF FEDERAL BORROWING AND FEDERALLY ASSISTED, OFF-BUDGET BORROWING -- ROSE FROM $24.4 BILLION IN 1974 TO $124.4 BILLION IN 1980. THIS REPRESENTS A COMPOUND ANNUAL GROWTH RATE

OF 31.2 PERCENT! MOREOVER, TOTAL FEDERAL AND FEDERALLY ASSISTED BORROWING HAS INCREASED AS A PERCENT OF THE TOTAL FUNDS RAISED BY THE NONFINANCIAL SECTOR IN OTHER WAYS -- THROUGH THE SALE OF DEBT SECURITIES, OTHER FORMS OF BORROWING, AND THROUGH THE SALE OF CORPORATE EQUITIES. INDEED, THE FEDERAL SHARE OF FUNDS RAISED INCREASED FROM 16 PERCENT DURING THE 1960'S TO 25 PERCENT DURING THE 1970'S AND CLIMBED TO 28 PERCENT IN 1980. IN SHORT, THE ALLOCATION OF FUNDS RAISED IN THE FINANCIAL MARKETS IS INCREASINGLY BIASED AGAINST PURE PRIVATE INVESTMENT BY THE DOUBLE-EDGED SWORD OF FEDERAL BORROWING AND FEDERALLY ASSISTED BORROWING.

ON- AND OFF-BUDGET FEDERAL BORROWING HAS INEXORABLY INCREASED FEDERAL GOVERNMENT DOMINATION OVER THE NATION'S RESOURCES. THE SAME IS TRUE OF FEDERAL OFF-OFF-BUDGET OR REGULATORY ACTIVITY. IN JUST 15 YEARS, THE REGULATED SECTOR OF THE ECONOMY HAS INCREASED FROM ROUGHLY ONE-TENTH TO ABOUT ONE-FOURTH OF GNP. THE REGULATORY MANDATES WHICH HAVE DRIVEN THIS EXTRAORDINARY GROWTH OF REGULATORY ACTIVITY IMPOSE BOTH DIRECT OR COMPLIANCE, AND INDIRECT COSTS ON THE ECONOMY. FROM THE EVIDENCE AVAILABLE, COMPLIANCE COSTS ARE CURRENTLY RUNNING AT MORE THAN $100 BILLION PER YEAR. THE INDIRECT COSTS -- WHILE DIFFICULT TO MEASURE -- INCLUDE HIGHER PRODUCT PRICES AND REDUCED OUTPUT AND EMPLOYMENT GROWTH BECAUSE OF THE NECESSITY OF MEETING REGULATORY INITIATIVES. WHATEVER THE MAGNITUDE OF THESE COSTS, THEY REPRESENT A HIDDEN COST OF REGULATORY MANDATES; A HIDDEN COST WHOSE EFFECTS INCLUDE THE DISPLACEMENT OF DISCRETIONARY, PRIVATE SPENDING.

THERE IS LITTLE DOUBT THAT REGULATORY MANDATES GENERATE BENEFITS. HOWEVER, THE DIRECT AND INDIRECT COSTS OF SECURING THESE BENEFITS OUGHT TO BE MINIMIZED. THIS IS NOTHING MORE THAN GOOD ECONOMICS AND COMMON SENSE. TO ACHIEVE THIS RESULT WILL REQUIRE THAT DESIGN STANDARDS BE ABANDONED IN FAVOR OF PERFORMANCE STANDARDS AND THAT, IN GENERAL, LEAST-COST METHODS OF ACHIEVING REGULATORY GOALS BE SOUGHT.

IT IS CLEAR THAT THE VOLUME AND GROWTH RATE OF FEDERAL ON, OFF, AND OFF-OFF-BUDGET ACTIVITY IS TOO HIGH. IT ALSO IS CLEAR THAT TAX RATES ARE TOO HIGH. BY DISCOURAGING WORK EFFORT, SAVING AND INVESTMENT, RISKTAKING AND ENTREPRENEURSHIP, THESE EXPENDITURES IMPART A CONSUMPTION, ANTISAVING BIAS TO THE ECONOMY; A BIAS THAT CANNOT BE RECONCILED WITH FASTER GROWTH.

FEDERAL SPENDING POLICIES HAVE BEEN EQUALLY DEBILITATING. AS THE RECIPIENT OF INFLATION-DRIVEN TAX WINDFALLS -- WINDFALLS DERIVING FROM TAX BRACKET CREEP, AND FROM DECREASES IN THE PURCHASING POWER OF THE PUBLIC'S HOLDINGS OF COIN AND CURRENCY AND THE FEDERAL GOVERNMENT'S DEBT OBLIGATIONS -- THE FEDERAL GOVERNMENT GAINS COMMAND OF RESOURCES WHICH THE PRIVATE SECTOR COULD HAVE USED TO FINANCE THE PURCHASE OF NEW PLANT AND EQUIPMENT, AND OTHER, PRODUCTIVITY ENHANCING INVESTMENTS. THE GOVERNMENT DOES NOT USE ITS WINDFALL GAINS IN SUCH WAYS. RATHER, IT ALLOCATES AN INCREASINGLY LARGE SHARE OF ITS RECEPITS -- 76 PERCENT IN 1981 -- TO SO-CALLED "UNCONTROLLABLE" OUTLAYS. THE BULK OF THESE OUTLAYS ARE TRANSFER PAYMENTS INTENDED TO ENABLE RECIPIENTS TO MAINTAIN CONSUMPTION PATTERNS IN THE FACE OF RISING PRICES. OBVIOUSLY, THE POOR, THE SICK, THE ELDERLY AND THE

UNEMPLOYED SHOULD BE HELPED. HOWEVER, A LARGE PART OF THE EXPENDITURES WHICH HAVE BEEN MADE TO HELP THEM IN RECENT YEARS WOULD NOT HAVE BEEN NECESSARY IF INFLATION AND UNEMPLOYMENT HAD BEEN LOWER, AND ECONOMIC GROWTH FASTER. IN TURN, BAD ECONOMIC POLICY -- MONETARY, FISCAL AND REGULATORY -- ACCOUNTS FOR A MAJOR PART OF THE ECONOMY'S POOR PERFORMANCE.

REVERSING THE DECLINE OF PRODUCTIVITY AND GROWTH

THE WAY TO MOVE UP TO A FASTER GROWTH TRACK IS CLEAR: THE MONETARY AND FISCAL POLICY LEVERS MUST BE PUSHED IN THE RIGHT DIRECTION AND KEPT THERE; SPECIFICALLY, MONETARY POLICY SHOULD BE PUT ON "SLOW" AND FISCAL POLICY ON "GO." AN ANTI-INFLATIONARY, PRO-GROWTH STRATEGY MUST INCLUDE THE FOLLOWING INITIATIVES:

- A STEADY REDUCTION IN THE GROWTH RATE OF THE MONEY SUPPLY;
- AN ACROSS-THE-BOARD REDUCTION IN PERSONAL MARGINAL TAX RATES;
- REDUCTION IN BUSINESS TAX RATES AND DEPRECIATION REFORM;
- TARGETED INCENTIVES FOR SAVING AND INVESTMENT;
- A REDUCTION OF FEDERAL GOVERNMENT SPENDING AS A PERCENT OF GNP;
- A REDUCTION OF OFF-BUDGET BORROWING BY THE FEDERAL GOVERNMENT, AND

- A REDUCTION IN THE REGULATORY BURDEN ON THE PRIVATE SECTOR.

INFLATION AND INTEREST RATES WILL COME DOWN WHEN AND ONLY WHEN THE FEDERAL RESERVE FORGETS ABOUT FINE TUNING, ABANDONS ANY VESTIGES OF "ACCOMMODATION" BY AN INTEREST RATE TARGETING POLICY, AND FOCUSES INSTEAD ON STEADY REDUCTIONS IN THE GROWTH RATE OF THE MONEY SUPPLY. IT IS EQUALLY IMPERATIVE THAT WE RECOGNIZE THAT BOTH PERSONAL AND BUSINESS MARGINAL TAX RATE REDUCTIONS ARE IN ORDER, AND CUT THEM. BUSINESS TAX RATE REDUCTIONS ARE NECESSARY TO HELP OFFSET RISING ENERGY AND OTHER INPUT PRICES, TO INCREASE INVESTMENT, RISKTAKING AND ENTREPRENEURSHIP, AND TO STIMULATE CURRENT OUTPUT AND EMPLOYMENT. PERSONAL MARGINAL TAX RATE REDUCTIONS AND ADDITIONAL SAVING INCENTIVES ARE NEEDED TO PREVENT OR AT LEAST SLOW BRACKET CREEP, TO ENCOURAGE WORK EFFORT, SAVING, COUPLED WITH A REDUCTION IN INSTALLMENT DEBT WILL PERMIT FINANCING OF ADDITIONAL INVESTMENT (ON TOP OF THAT FINANCED BY NEW BUSINESS SAVING).

THE STRATEGY OF REDUCED MONEY GROWTH AND PERSONAL AND BUSINESS MARGINAL TAX RATE REDUCTIONS IS FUNDAMENTALLY ANTI-INFLATIONARY AND PRO-GROWTH. STEADY REDUCTIONS IN MONEY GROWTH WILL REDUCE INFLATION AND INFLATIONARY EXPECTATIONS. EROSION OF INFLATIONARY EXPECTATIONS WILL ITSELF HELP REDUCE INFLATION. IT WILL DO SO BY DECREASING ANTICIPATORY BUYING IN EXPECTATION OF CONTINUED HIGH INFLATION. IN ADDITION, THE EROSION OF INFLATIONARY EXPECTATIONS WILL PULL DOWN LONG-TERM INTEREST RATES RELATIVELY QUICKLY. THIS WILL STIMULATE LONG-TERM INVESTMENT AND GROWTH. FOR THEIR PART, PERMANENT BUSINESS TAX RATE REDUCTIONS

WILL REDUCE BOTH CURRENT AND FUTURE PRODUCTION COSTS, AND INCREASE THE PROFITABILITY OF INVESTMENTS GENERALLY. PRODUCTION AND GROWTH WILL INCREASE AS A RESULT.

WHILE BUSINESS TAX RATE REDUCTIONS WILL STIMULATE SUPPLY, PERSONAL MARGINAL TAX RATE CUTS WILL STIMULATE BOTH DEMAND AND SUPPLY. DEMAND WILL RISE VIA THE POSITIVE EFFECT OF TAX RATE CUTS ON REAL DISPOSABLE INCOMES. SUPPLY WILL RISE BECAUSE OF THE POSITIVE EFFECT OF MARGINAL TAX RATE CUTS ON REAL AFTER-TAX RATES OF RETURN TO PERSONAL EFFORT AND SAVING.

THERE CAN BE NO DOUBT THAT THE ABSOLUTE AMOUNT OF SAVING WILL RISE AS A RESULT OF A PERSONAL MARGINAL TAX RATE CUT. WHILE IT HAS BEEN DECREASING, THE SAVING RATE IS STILL POSITIVE. THEREFORE, SOME PORTION OF THE INCREASE IN REAL DISPOSABLE INCOME WILL BE SAVED. MOREOVER, BECAUSE THEY WILL INCREASE AFTER-TAX RETURN TO SAVING, PERSONAL MARGINAL TAX RATE CUTS WILL IMPEL AN INCREASE IN THE PROPENSITY TO SAVE OUT OF DISPOSABLE INCOME. HOWEVER, IN THESE INFLATIONARY TIMES, STILL GREATER INCENTIVES TO SAVE ARE NEEDED. INFLATION HAS REDUCED THE SAVING RATE IN RECENT YEARS, AND THERE IS NOW URGENT NEED FOR ADDITIONAL SAVING TO FUEL FASTER ECONOMIC GROWTH. THIS NEED LEADS US TO RECOMMEND ADDITIONAL SAVING INCENTIVES. THESE EXTRA INCENTIVES SHOULD AIM AT INCREASING ADDITIONALLY THE AFTER-TAX RATE OF RETURN TO SAVING AND SHOULD CENTER AROUND STEEP REDUCTIONS IN THE MARGINAL TAX RATES ON INTEREST AND DIVIDEND INCOME. IF THESE CUTS ARE MADE, SAVING WILL RISE TO AT LEAST ITS HISTORIC LEVEL AND WILL PROVIDE A MAJOR SOURCE OF THE FINANCING NEEDED TO GET THE ECONOMY GROWING AT A FASTER RATE.

WHETHER MARGINAL TAX RATE REDUCTIONS INDUCE ADDITIONAL WORK EFFORT DEPENDS UPON WHETHER INCREASES IN REAL AFTER-TAX RETURNS TO EFFORT ARE EFFECTIVE CATALYSTS TO ADDITIONAL EFFORT. WE BELIEVE THEY ARE. THIS REFLECTS OUR JUDGEMENT THAT THE WORK ETHIC IS NOT DEAD: REWARD WORK BETTER, AND PEOPLE WILL WORK HARDER, LONGER AND SMARTER. TAX WORK, AND PEOPLE WILL SUBSTITUTE LEISURE AND/OR "UNDERGROUND" OR UNTAXED ACTIVITIES.

TO COMPLEMENT THE STRATEGY OF SLOWER MONEY GROWTH AND REDUCED PERSONAL AND BUSINESS MARGINAL TAX RATES, WE COMMEND, AS ABSOLUTELY NECESSARY, AND ACCOMPANYING REDUCTION IN THE BURDEN OF THE FEDERAL GOVERNMENT ON THE PRIVATE SECTOR. WHEN TAX RATE CUTS ARE COMBINED WITH REDUCTIONS IN FEDERAL SPENDING, ON- AND OFF-BUDGET BORROWING, AND A RATIONAL REGULATORY POLICY -- ONE THAT RECOGNIZES THAT, WHATEVER THE BENEFITS OF REGULATION, ITS DIRECT AND INDIRECT COSTS MUST BE MINIMIZED -- THE HEAVY HAND OF GOVERNMENT WILL NO LONGER PREVENT THE ECONOMY FROM MOVING TO A FASTER GROWTH TRACK.

THE RESULT OF THIS MONETARY-FISCAL-REGULATORY PACKAGE WILL BE GROWTH IN REAL INCOMES AND JOBS, A REDUCTION IN INFLATION AND INTEREST RATES, AN EXPANSION OF RESOURCES TO CLEAN UP THE ENVIRONMENT, AN INCREASE IN OUR COMPETITIVE EFFECTIVENESS, A GREATER ABILITY TO MEET OUR DEFENSE NEEDS, A DECLINING SHARE OF GNP BEING COMMANDED BY GOVERNMENT, AND THE DISAPPEARANCE OF THE "ZERO SUM SOCIETY."

INTEREST RATES

Senator **Armstrong**. Well, I am grateful to the distinguished chairman and distinguished vice chairman of the Joint Economic Committee for their thought-provoking observations. If it was their purpose to leave my head spinning, they have succeeded. I have now heard of supply-side economics demand, side economics, voodoo economics. I myself am a devotee of Ouija board economics. But I just want to ask one question. I do not want to drag this out because I know that you both have plenty to do today.

But, Mr. Reuss, how could it be that the model would project such a high rate for interest in 1984, 1985, if the inflation rate has dropped significantly between now and then? Am I reading the tables in your prepared statement correctly? That seems to be an economic phenomenon that I would not have expected.

Mr. **Reuss**. Let me explain the paradox.

Senator **Armstrong**. Please do.

Mr. **Reuss**. And it surely is one. If you look at table 1 in my prepared statement, it shows that in 1984, and on the road to it, long-term interest rates, utilities bonds and corporate bonds, do go down, they go down to 13.10, 13.42, 12.76, 12.36 percent, and from 12.72 to 11.82 percent.

That is because the Consumers Price Index does go down. We were not trying to conceal that which is good about the President's program. The CPI does go down, and that is glorious news. And therefore, lenders of long-term capital do not put in the inflationary premium which anybody who parts with his capital for a long period of time has to place on it. But short-term rates, the Federal funds rate, and the prime rate, unfortunately get worse. Federal funds, for instance, goes up from 14.24 percent today to 18 percent-plus in 1984. The prime rate, up from 15.28 to 16 and 15.87 percent. That is because short-term rates do not, in anywhere near that degree, reflect that inflationary premium.

The Morgan Guaranty letter, which has been offered in evidence, makes this point very clearly. The Morgan Guaranty letter says of today, look at long-term interest rates. They are worse than they were in January 3 months ago before the President's program was announced, and that is because the markets, being very sophisticated, project and predict just the kind of budgetary disaster 4 years out that our study shows.

ECONOMETRIC PROJECTIONS UNCERTAIN

Now, let me make, if I may, Mr. Chairman, one final point. I agree with my colleague, Senator Jepsen, all of these econometric projections are extremely iffy. We do not ordinarily make one on the JEC for just that reason. But simply because nobody had done this, nobody had thrown all these particular sausages into the machine, we thought it a good idea to do that.

We do not suggest that this committee should take our JEC Democratic staff projection and construct a 5-year plan for the United States accordingly; an inflexible corset.

What we do suggest is that we should be wary of getting locked into any kind of a 4- or 5-year plan. Flexibility coupled with a statement of future intention, and a little more moderation on the money side and a little more moderation on the fiscal side, we think, is the best way out of our dilemma.

But I want to make it clear that I do not differ from my Brother Jepsen in my lack of faith in long-term models for practical policy.

Senator **Armstrong**. Senator Jepsen?

Senator **Jepsen**. I think, as this is all unfolding, it has been a very rewarding experience for me. And I believe it will come down on the side of being very helpful, very informative, and maybe some landmark information will be forthcoming from our committee this year just because Congressman Reuss and his staff and Senator Jepsen and the Republican staff have really provided some ventilation to both sides of this.

And the more I reflect on it, the more pleased I am that, frankly, it is working out this way. If anybody comes up with any result, either end, they can look back at 1981 and say, well, they can pick one of the two things and say, well, the Joint Economic Committee warned them, or the Joint Economic Committee predicted it, because we have got the whole spectrum. [Laughter.]

Mr. **Reuss**. I had not thought of it in exactly that light.

Senator **Jepsen**. And I think we are performing a yeoman service, and I am more pleased and delighted than ever that Congressman Reuss is a partner in this committee this year with me.

Senator **Armstrong**. Well, my colleagues, on that happy note, I am prepared to adjourn, if you are.

Senator **Jepsen**. Thank you.

Mr. **Reuss**. Thank you.

Senator **Armstrong**. Thank you for coming.

[Whereupon, at 3:35 p.m., the committee adjourned at the call of the Chair.]

STATE AND LOCAL VIEWS AND WASTE, FRAUD, AND ABUSE

FRIDAY, APRIL 3, 1981

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The committee met at 10:10 a.m., in room 6202, Dirksen Senate Office Building, Hon. Pete V. Domenici, chairman, presiding.

Present: Senators Domenici, Symms, Grassley, Quayle, Gorton, and Exon.

Staff present: Stephen Bell, staff director; Gail Fosler, chief economist; William Stringer, senior economist; and Lizabeth Tankersley, minority staff director.

Chairman DOMENICI. All right, we are going to start.

We have two witnesses today, Roy Orr, president, National Association of Counties, and commissioner, Dallas County, Tex., and Richard G. Hatcher, president, U.S. Conference of Mayors, and mayor, Gary, Ind.

Do you have any preference in who testifies first?

Do you have any problems, either of you?

Mr. HATCHER. Mr. Chairman, mayors always defer to counties. I will be happy to have Mr. Orr go first.

Chairman DOMENICI. Fine.

OPENING STATEMENT OF CHAIRMAN DOMENICI

Let me just make a couple of observations and then we will proceed quickly and I hope will not keep you too long this morning.

During the last 2 weeks, this committee and Senate as a whole have approved budget reductions of an unprecedented nature. These reductions, as I see it, signal a refocus of Federal priorities toward strengthening national defense, preserving the "safety net" for the disadvantaged of this country, while achieving overall tax and expenditure reductions to revitalize the Nation's economy.

At the same time, these actions reemphasize the importance of State and local governments in our federal system. There are a number of policy changes that should come from these signals. Allow State and local governments to assume a stronger role in managing domestic programs without imposing overly prescriptive and unnecessary Government regulation is critical to this process of "refederalization."

We are delighted that you have taken time from your busy schedules to be with us. Now, we will proceed, Mr. Orr. You are at liberty to give your entire statement or summarize it.

In any event, at the offset, it will be made a matter for the record in its entirety.

STATEMENT OF ROY ORR, PRESIDENT, NATIONAL ASSOCIATION OF COUNTIES, AND COMMISSIONER, DALLAS COUNTY, TEX.

Mr. ORR. Thank you, Mr. Chairman.

I appreciate your making the full statement a part of the record because I will try to summarize.

My name is Roy Orr. I am president of the National Association of Counties, and also a full-time commissioner from Dallas County, Tex.

At the outset, I would like to say I understand we have several former National Association employees that serve on your Budget staff, Carol Cox, Richard Bartholomew, and Tony McCann, and we are grateful that you have the knowledge to employ these people.

PRESIDENT'S PROGRAM SUPPORTED BY NACO

Let me begin by expressing to the committee our total understanding of the importance these hearings have in our organization's ability to reflect our concern over the Federal budget for fiscal 1981 and 1982. The National Association of Counties (NACo) strongly supports President Reagan's program to reduce inflation and stimulate economic growth by comprehensive cuts in both Federal spending and taxes. We reject out of hand any "business as usual" approach to our current financial crisis and we will play an active role in supporting specific spending reductions before the Congress.

We are also aware that many of the proposed changes will dramatically alter some programs that have been operative in America for nearly half a century. If we are to move from proposal to reality, it will require a constant dialog between the President, the Congress, and State, county, and city officials and, as such, I am particularly pleased to be here this morning.

The membership of NACo has been concerned for some time about the size of the Federal budget and, 3 years ago, formally adopted a resolution urging Federal, State, and local governments to form a partnership and immediately begin a sincere effort leading ultimately to a balanced Federal budget. At the same time, we changed the internal procedures of our policymaking process at NACo by requiring that when our steering committees review a new or continuing Federal program, that program must be accompanied by a fiscal note. In taking action, the steering committee must consider the fiscal note. The matter is again reviewed by our resolutions committee at our annual meeting as individual programs are considered and acted upon prior to their being forwarded to our general membership meeting for final action. We believe this process is working and that, as a result, NACo is now taking more responsible positions on Federal spending legislation.

As the debate on economic proposals proceeds through the Congress, NACo will be guided by the following principles:

BALANCED BUDGET

We favor balancing the Federal budget as soon as possible, and pledge to keep out county budgets balanced. However, while accepting our fair share of the necessary cuts, we hope that the deserving poor, who receive a major portion of public assistance through county governments, will not be forced to make a disproportionate share of sacrifices.

Most county governments, under the pressures of double-digit inflation and declining revenues, have, for the past several years, experienced the necessity of cutting services, delaying salary adjustments and laying off employees, delaying capital improvements and preventative maintenance and substituting special fees for various services. It is important for the public to understand that counties, most under constitutional and/or political tax limitations, have been seriously weakened financially. We, therefore, urge that any fiscal liability resulting from the proposed cuts not be transferred to county governments and that we be given sufficient time to help our counties adjust to service cuts caused by programs destined to be eliminated. We must also insist that regulations and mandates which have been found to be unnecessary, useless and shackle productivity are reduced to go hand in hand with spending reductions.

CONSOLIDATE CATEGORICAL GRANTS INTO BLOCK GRANTS

NACo has long supported consolidating numerous categorical grants into block grants, and we congratulate President Reagan for making this concept a cornerstone of his new federalism. We can accept sharp cuts in categorical grants if a proportion of the remaining share is distributed to cities, counties, and States under the general revenue-sharing program. However, you should not expect that State, city, and county governments will be able to restore those services eliminated in the consolidation of the block grants.

At our annual legislative conference last month, March 8–10, 1981, the NACo board of directors approved recommendations of each of our 12 steering committees outlining which of President Reagan's cuts we can accept, which we must oppose, and what cuts we can suggest instead of some of the cuts being made.

COMMUNITY DEVELOPMENT POLICY

First, in that item is community development policy. In the area of community development policy, NACo has made the following decisions. Cuts NACo can accept:

Consolidation of the urban development action grant program into the community development block grant program in fiscal 1982 ($584 million reduction).

Termination of the section 312 housing rehabilitation loan program ($139 million reduction); the section 701 planning program ($32.5 million reduction); and the neighborhood self-help grants ($9 million reduction).

Termination of the Regional Development Commission ($44 million reduction), and the Appalachian Regional Commission ($128 million reduction).

Also, these are the cuts NACo will oppose:

Deferral of $1.3 billion of fiscal 1981 budget authority for the section 8 low-income housing program and a 13-percent reduction over the Carter administration's proposed fiscal 1982 request—$3.5 billion reduction.

Elimination of the grant and loan programs of the Economic Development Administration—$625 million reduction in fiscal 1982.

A rescission of $300+ million for EDA in fiscal 1981.

FARMERS HOME ADMINISTRATION DIRECT LENDING ACTIVITIES

This is what NACo decided in our legislative conference a month ago to support:

Reasonable cuts in the direct loan programs;

Consolidation of rural development loan programs which result in appreciable savings to the Federal Government;

Cuts in Federal rural development loan assistance which are accompanied by corresponding cuts in regulations; and

An increase in the loan interest rate.

CRIMINAL JUSTICE AND PUBLIC SAFETY POLICY

In the area of criminal justice and public safety policy, NACo has made the following decisions—

Cuts NACo can accept:

Elimination of the $34.9 million increase proposed for the Office of Juvenile Justice and Delinquency Prevention—OJJDP—in the Carter fiscal 1982 budget.

Increase premiums and deductible on the national flood insurance program to reduce Federal appropriations.

However, we must say we will oppose these:

Elimination of Federal funding for criminal justice. There needs to be, at the very least, a Federal office or agency to coordinate Federal criminal justice activities that are now dispersed throughout the Federal Government.

Eliminating OJJDP or folding it into one of the proposed block grants in the Department of Health and Human Services.

Any reduction in the U.S. Fire Administration budget.

A reduced Federal share of disaster relief payments on public assistance projects.

Any reduction in the emergency management assistance portion of the civil defense program.

EMPLOYMENT POLICY

In the area of employment policy, NACo has made the following decisions—

Cuts NACo can accept:

Elimination of 100,000 CETA title VI public service jobs—$234 million in fiscal 1981; $1.142 billion in fiscal 1982 reduction.

Changes in unemployment insurance laws as proposed by the President—$1.1 billion in fiscal 1981 and 1982.

Reduce staff for the U.S. Employment Service—$150 million in fiscal 1982.

Reduce the work incentive program—WIN—$20 million in fiscal 1982.

Cuts NACo opposes:

Any cuts in CETA title II-D public service jobs—$607 million deferral in fiscal 1981 and $2.81 billion in fiscal 1982 reduction.

Any cuts in CETA titles II-B, III, IV-A, IV-C or VII.

Cuts NACo suggests instead of the President's cuts:

Eliminate funding for the work incentive program—WIN.

Use of unemployment insurance benefits after 13 weeks for subsidy of job training opportunities and wages for public and private sector jobs.

Taxation of unemployment benefits after an individual's income, including those benefits, exceeds 125 percent of the Bureau of Labor statistics lower living standard income level—$2.5 billion in fiscal 1982 savings.

ENVIRONMENT AND ENERGY POLICY

In the area of environment and energy programs, NACo has made the following decisions. Cuts NACo can accept:

All cuts for municipal waste treatment grants, if they are accompanied by a proportional reduction in water quality requirements and mandates.

A phased withdrawal of these Federal grants funds, to be replaced with a long-term, low-interest loan program.

Cuts proposed in the solar energy budget.

All cuts proposed for alcohol and synthetic fuels programs.

Cuts proposed for fossil energy.

All cuts for energy conservation, except in programs listed below.

Alternative cuts NACo will suggest:

Combine the State and local technical assistance programs, the energy extension service, schools and hospitals, local government buildings, emergency energy conservation and the low-income weatherization program into a single block grant.

Funding would be less than the combined Carter budget for these programs and would not increase the total DOE budget request. Funding would come from within the budget, as proposed.

HEALTH AND EDUCATION POLICY

In the area of health and education programs, NACo has made the following decisions. Cuts NACo can accept:

Phase out professional standards review organizations—$38 million in fiscal 1981; $119 million in fiscal 1982.

Phase out funds to health maintenance organizations—$37 million in fiscal 1981; $24 million fiscal 1982.

End subsidies for health professions education—$219 million in fiscal 1981; $280 million in fiscal 1982.

No new scholarships for the National Health Services Corps—$16 million in fiscal 1981; $31 million in fiscal 1982.

Cuts NACo will oppose:

$1 billion to $2 billion cuts in medicaid and "interim" cap.

$2.6 billion cut in health and social services under block grant.

Alternative cuts NACo will suggest:

Added State flexibility in setting reimbursement rates for services under medicare and medicaid—$750 million in fiscal 1982—and other measures to eliminate statutory barriers to the development of prepaid health plans and health maintenance organizations in the public sector, which could reduce costs by as much as 20 percent.

Cuts commensurate with administrative costs that are eliminated by consolidating programs into block grants.

Reduce health planning funding by a percentage commensurate with cuts applied to consolidated programs.

In the area of education programs:

Cut education impact aid—$67 million in fiscal 1981; $474 million in fiscal 1982.

Cuts NACo will oppose:

Consolidate programs into one education block grant—$1.5 billion in fiscal 1982.

Alternative cuts NACo will suggest:

Cuts in education block grants commensurate with administrative costs that are eliminated by consolidating programs into block grants.

HOME RULE AND REGIONAL AFFAIRS POLICY

In home rule and regional affairs policies, NACo has made the following decisions. Cuts NACo can accept:

Phase out of Interpersonal Personnel Act—IPA—programs if, in light of the anticipated consequences to local governments of other proposed budget cuts, the Federal Government provides flexibility in the use of Federal funding to strengthen the management capacity and improve efficiency and effectiveness of program implementation.

HUMAN SERVICES POLICY

In the area of human services programs, NACo has made the following decisions. Cuts NACo can accept:

Agreements to the AFDC and child support enforcement—CSE—programs. The amendments would count stepparent income for AFDC eligibility; county earned income tax credit in determining AFDC benefits; standardize AFDC work expenses and cap child care deductions; require retrospective accounting; charge fees for child support collection to nonwelfare families; collect alimony payments to offset or prevent welfare costs; and authorize the IRS to collect overdue child support from income tax returns—$520 million in fiscal 1982.

Cuts in child welfare, foster care and adoption. New funds to be appropriated for implementing H.R. 3434 (Public Law 96-272), provided that States and counties are not required to implement the new law.

Cuts in low income energy assistance—$123 million.

Cuts in Community Service Administration—$600 million.

Cuts in the Cuban refugee phasedown program—$45 million.

Cuts in the refugee voluntary aging program—$15 million.

Cuts NACo opposes:

Costs shifted to local governments, under a proposed, but as yet unannounced, welfare block grant.

Title XX social services block grant. This block grant program has already achieved many savings that can be expected from program consolidation and should not be reduced again. Many counties pay the full 25 percent matching and depend on this program for the basic life preserving services to needy citizens—$750 million.

Child welfare services, H.R. 3434. We oppose any mandate to implement child welfare, foster care, and adoption reforms without special funding for the legislation.

Cuts in refugee social services—$24 million.

Cuts in refugee educational assistance—$23 million.

Increasing refugee cash and medical assistance funding by only $13 million; to avoid shifting costs to State and counties. NACo will support an increase of $93 million.

LABOR-EMPLOYEE BENEFITS POLICY

In the area of labor and employee benefits policies, NACo has made the following decisions—

Cuts NACo can accept:

Tightening of the disability insurance program—$725 million.

Elimination of student benefits, provided that loans to needy students be expanded to partially offset the change—$800 million.

Elimination of the minimum benefits, if the supplemental security income program is expanded, as promised, to help the truly needy.

LAND USE AND GROWTH MANAGEMENT POLICY

In the area of land use and growth management programs, NACo has made the following decisions—

Cuts NACo can accept:

NACo opposes proposed cuts in the coastal zone management program and recommends reduced funding and phasing out the CZM program by 1985, as well as continuing the sea grant program permanently at a reduced funding level.

NACo supports cuts in funding for the land and water conservation fund—LWCF—program in fiscal years 1981 and 1982, but only to the degree that Federal assistance to State and local governments does not bear an unfair share of the cutbacks necessary to balance the Federal budget.

NACo does not support total elimination of assistance to State and local governments for parks and recreation under the LWCF as proposed by President Reagan.

NACo supports the proposed cuts in the urban park grants program.

NACo supports the proposed cuts in historic preservation funds.

PUBLIC LANDS POLICY

In the area of public lands policy, NACo has made the following decision—

Cuts NACo will oppose:

Any reduction from the $114 million needed for payments—in lieu of taxes—PILT—program for fiscal 1982.

Any amendments to the PILT formula that would dilute county control. This is very important. This is our No. 2 priority. It may be equal to No. 1, and is high on our priority list.

Alternative cuts NACo will suggest:

NACo would oppose any funds for acquisition in the Bureau of Land Management budget. This would help offset NACo opposition to any cuts in the PILT program.

TRANSPORTATION POLICY

On the area of transportation programs, NACo has made the following decisions—

Cuts NACo can accept:

Cuts totaling approximately $27 billion, equivalent in dollars to those proposed by the administration in mass transit, highways, airports, and railroads. $20 billion of the cuts should be apportioned to the interstate completion program.

Cuts NACo will oppose:

Specific earmarking of programs to be eliminated through cuts. These include termination of Federal secondary aid, Federal urban system aid, section 3 new transit starts and extension, local rail assistance program, section 318 small urban and rural public transportation, elimination of highway and transit planning funds, including preliminary engineering and mass transit.

Alternative cuts NACo will suggest:

Eliminate approximately $20 billion out of the total $57 billion in budget authority to complete the interstate system, through caps on the number of lanes on interstate segments, and limitations on escalating safety and pavement structure standards.

I thank you for the opportunity of testifying here this morning, and we have some staff with us that are experts in many of these fields and between all of us, maybe we can answer any questions that you might have.

Again I appreciate the opportunity of being here.

Chairman DOMENICI. Thank you very much.

[The prepared statement Roy Orr follows:]

Prepared Statement of Roy Orr, President, National Association of Counties,* and Commissioner, Dallas County, Tex.

Mr. Chairman and members of the Committee, my name is Roy Orr. I am President of the National Association of Counties and a commissioner from Dallas County, Texas.

LET ME BEGIN BY EXPRESSING TO THE COMMITTEE OUR TOTAL UNDERSTANDING OF THE IMPORTANCE THESE HEARINGS HAVE IN OUR ORGANIZATION'S ABILITY TO REFLECT OUR CONCERN OVER THE FEDERAL BUDGET FOR FISCAL 1981 AND 1982.

THE MEMBERSHIP OF NACO HAS BEEN CONCERNED FOR SOMETIME ABOUT THE SIZE OF THE FEDERAL BUDGET AND THREE YEARS AGO FORMALLY ADOPTED A RESOLUTION URGING FEDERAL, STATE AND LOCAL GOVERNMENTS TO FORM A PARTNERSHIP AND IMMEDIATELY BEGIN A SINCERE EFFORT LEADING ULTIMATELY TO A BALANCED FEDERAL BUDGET. AT THE SAME TIME, WE CHANGED THE INTERNAL PROCEDURES OF OUR POLICY-MAKING PROCESS AT NACO, BY REQUIRING THAT WHEN OUR STEERING COMMITTEES REVIEW A NEW OR CONTINUING FEDERAL PROGRAM, THAT PROGRAM MUST BE ACCOMPANIED BY A FISCAL NOTE. IN TAKING ACTION, THE STEERING COMMITTEE MUST CONSIDER THE FISCAL NOTE. THE MATTER IS AGAIN REVIEWED BY OUR RESOLUTIONS COMMITTEE AT OUR ANNUAL MEETING AS INDIVIDUAL PROGRAMS ARE CONSIDERED AND ACTED UPON PRIOR TO THEIR BEING FORWARDED TO OUR GENERAL MEMBERSHIP MEETING FOR FINAL ACTION. WE BELIEVE THIS PROCESS IS WORKING AND THAT AS A RESULT, NACO IS NOW TAKING MORE RESPONSIBLE POSITIONS ON FEDERAL SPENDING LEGISLATION.

AT OUR ANNUAL LEGISLATIVE CONFERENCE LAST WEEK (MARCH 8-10, 1981), THE NACO BOARD OF DIRECTORS APPROVED RECOMMENDATIONS OF EACH OF OUR TWELVE STEERING COMMITTEES OUTLINING WHICH OF PRESIDENT REAGAN'S CUTS WE CAN ACCEPT, WHICH WE MUST OPPOSE, AND WHAT CUTS WE CAN SUGGEST INSTEAD OF SOME OF THE CUTS BEING MADE.

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*THE NATIONAL ASSOCIATION OF COUNTIES IS THE ONLY NATIONAL ORGANIZATION REPRESENTING COUNTY GOVERNMENT IN THE UNITED STATES. THROUGH ITS MEMBERSHIP, URBAN, SUBURBAN AND RURAL COUNTIES JOIN TOGETHER TO BUILD EFFECTIVE, RESPONSIVE COUNTY GOVERNMENTS. THE GOALS OF THE ORGANIZATION ARE: TO IMPROVE COUNTY GOVERNMENT; TO SERVE AS THE NATIONAL SPOKESMAN FOR COUNTY GOVERNMENTS; AND TO ACHIEVE PUBLIC UNDERSTANDING OF THE ROLE OF COUNTIES IN THE FEDERAL SYSTEM.

COMMUNITY DEVELOPMENT POLICY

IN THE AREA OF COMMUNITY DEVELOPMENT POLICY. NACO HAS MADE THE FOLLOWING DECISIONS:

CUTS NACO CAN ACCEPT

- CONSOLIDATION OF URBAN DEVELOPMENT ACTION GRANT PROGRAM INTO THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM IN FISCAL 1982 ($584 MILLION REDUCTION).
- TERMINATION OF THE SECTION 312 HOUSING REHABILITATION LOAN PROGRAM ($130 MILLION REDUCTION), THE SECTION 701 PLANNING PROGRAM ($32.5 MILLION REDUCTION) AND THE NEIGHBORHOOD SELF-HELP GRANTS ($9 MILLION REDUCTION).
- TERMINATION OF THE REGIONAL DEVELOPMENT COMMISSION ($44 MILLION REDUCTION) AND THE APPALACHIAN REGIONAL COMMISSION ($128 MILLION REDUCTION).

CUTS NACO WILL OPPOSE

- DEFERAL OF $1.3 BILLION OF FISCAL 1981 BUDGET AUTHORITY FOR THE SECTION 8 LOW-INCOME HOUSING PROGRAM AND A 13 PERCENT REDUCTION OVER THE CARTER ADMINISTRATION'S PROPOSED FISCAL 1982 REQUEST ($3.5 BILLION REDUCTION).
- ELIMINATION OF THE GRANT AND LOAN PROGRAMS OF THE ECONOMIC DEVELOPMENT ADMINISTRATION ($625 MILLION REDUCTION IN FISCAL 1982).
- A RECISSION OF $300+ MILLION FOR EDA IN FISCAL 1981.

FARMERS HOME ADMINISTRATION DIRECT LENDING ACTIVITIES:

NACO WILL SUPPORT:

- REASONABLE CUTS IN THE DIRECT LOAN PROGRAMS;
- CONSOLIDATION OF RURAL DEVELOPMENT LOAN PROGRAMS WHICH RESULT IN APPRECIABLE SAVINGS TO THE FEDERAL GOVERNMENT:
- CUTS IN FEDERAL RURAL DEVELOPMENT LOAN ASSISTANCE WHICH ARE ACCOMPANIED BY CORRESPONDING CUTS IN REGULATIONS; AND
- AN INCREASE IN THE LOAN INTEREST RATE.

NACo SUPPORTS A FY'82 FUNDING LEVEL OF $4.166 BILLION FOR THE COMMUNITY DEVELOPMENT BLOCK GRANT AND URBAN DEVELOPMENT ACTION GRANT PROGRAMS. NACo ALSO SUPPORTS THE TERMINATION OF THE SEC. 312 HOUSING REHABILITATION LOAN PROGRAM, THE SEC. 701 COMPREHENSIVE PLANNING PROGRAM AND THE NEIGHBORHOOD SELF HELP PROGRAM.

HOWEVER, BECAUSE THE TERMINATION OF THESE CATEGORICAL GRANT PROGRAM WILL PLACE ADDITIONAL DEMANDS ON THE BLOCK GRANT PROGRAM, NACo STRONGLY URGES THAT IN FY'82 $3.96 BILLION BE MADE AVAILABLE FOR COMMUNITY DEVELOPMENT BLOCK GRANTS AND $200 MILLION FOR UDAG.

NACo OPPOSES THE ADMINISTRATION'S PROPOSED FY '81 RECISSION OF $340 MILLION FOR THE GRANT AND LOAN PROGRAMS OF THE ECONOMIC DEVELOPMENT ADMINISTRATION, AND SUPPORTS A FUNDING LEVEL OF $624 MILLION IN FY '82.

IN COUNTY AFTER COUNTY ACROSS THE NATION, COUNTY OFFICIALS TELL US OF THE BENEFIT EDA HAS BROUGHT TO THEIR COMMUNITIES IN RESPONDING TO THE PROBLEMS OF POVERTY AND UNEMPLOYMENT THROUGH CREATING OR RETAINING JOBS. EDA REPRESENTS A TRUE PUBLIC/PRIVATE PARTNERSHIP TO HELP REINVIGORATE AILING LOCAL ECONOMIES BY PUTTING PEOPLE TO WORK.

MANY COMMUNITIES HAVE MOVED AHEAD WITH THEIR PLANNING BASED ON AN EXPECTATION THAT THE $624 MILLION APPROPRIATED BY CONGRESS IN FY '81 WOULD BE AVAILABLE TO THEM. IT WOULD BE UNFAIR FOR THIS CONGRESS TO BREAK FAITH WITH THEM. MANY OTHER COMMUNITIES ARE INVOLVED IN MULTI-YEAR PROJECTS REQUIRING FUNDING IN FY '82. THEY, TOO, SHOULD HAVE THE OPPORTUNITY TO COMPLETE WHAT THEY'VE STARTED.

NACo BELIEVES THAT THE RATIONALE FOR TERMINATING THE EDA PROGRAMS — THAT SUCH AID IS UNNECESSARY, AND THAT THE COST TO PRODUCE A JOB IS TOO EXPENSIVE — IS INACCURATE AND FAILS TO JUSTIFY TERMINATION.

UNTIL THE CONGRESS CAN EXERCISE OVERSIGHT OF EDA, SOMETHING IT HAS COMMITTED ITSELF TO DO DURING THE LAST CONGRESS, THE EDA PROGRAMS SHOULD REMAIN INTACT AND AVAILABLE TO MEET THE ECONOMIC DEVELOPMENT NEEDS OF DISTRESSED COUNTIES AND CITIES.

NACo IS DEEPLY CONCERNED ABOUT THE CONTINUED REDUCTION IN THE LEVEL OF FUNDING MADE AVAILABLE FOR ASSISTED HOUSING. WE BELIEVE THAT THE LEVEL OF FUNDING REQUESTED BY THE PREVIOUS ADMINISTRATION (SUFFICIENT TO SUPPORT 260,000 UNITS) FOR FISCAL '82 IS THE MINIMUM THAT SHOULD BE REQUESTED FOR SECTION 8 AND CONVENTIONAL PUBLIC HOUSING. THE

REAGAN ADMINISTRATION'S PROPOSED REDUCTION TO 175,000 UNITS IN FISCAL '82 WILL CRIPPLE THE EFFORTS OF LOCAL GOVERNMENTS IN ATTEMPTING TO MEET THE PRESSING HOUSING NEEDS OF LOW INCOME AMERICANS.

WE URGE THIS COMMITTEE TO PROVIDE LEADERSHIP IN PRESERVING THE ASSISTED HOUSING PROGRAMS, WHICH ARE ADMITTEDLY EXPENSIVE, UNTIL ANOTHER ALTERNATIVE, SUCH AS A HOUSING BLOCK GRANT PROGRAM IS IN PLACE.

CRIMINAL JUSTICE AND PUBLIC SAFETY POLICY:

IN THE AREA OF CRIMINAL JUSTICE AND PUBLIC SAFETY POLICY, NACo HAS MADE THE FOLLOWING DECISIONS:

CUTS NACo CAN ACCEPT

- ELIMINATION OF THE $34.9 MILLION INCREASE PROPOSED FOR THE OFFICE OF JUVENILE JUSTICE AND DELINQUENCY PREVENTION (OJJDP) IN THE CARTER FISCAL 1982 BUDGET.
- INCREASE PREMIUMS AND DEDUCTIBLE ON THE NATIONAL FLOOD INSURANCE PROGRAM TO REDUCE FEDERAL APPROPRIATIONS.

CUTS NACo WILL OPPOSE

- ELIMINATION OF FEDERAL FUNDING FOR CRIMINAL JUSTICE. THERE NEEDS TO BE, AT THE VERY LEAST, A FEDERAL OFFICE OR AGENCY TO COORDINATE FEDERAL CRIMINAL JUSTICE ACTIVITIES THAT ARE NOW DISPERSED THROUGHOUT THE FEDERAL GOVERNMENT.
- ELIMINATING OJJDP OR FOLDING IT INTO ONE OF THE PROPOSED BLOCK GRANTS IN THE DEPARTMENT OF HEALTH AND HUMAN SERVICES.
- ANY REDUCTION IN THE U.S. FIRE ADMINISTRATION BUDGET.
- A REDUCED FEDERAL SHARE OF DISASTER RELIEF PAYMENTS ON PUBLIC ASSISTANCE PROJECTS.
- ANY REDUCTION IN THE EMERGENCY MANAGEMENT ASSISTANCE PORTION OF THE CIVIL DEFENSE PROGRAM.

THE REAGAN ADMINISTRATION HAS REQUESTED NO NEW FUNDING FOR THE LAW ENFORCEMENT ASSISTANCE ADMINISTRATION AND THE OFFICE OF JUVENILE JUSTICE AND DELINQUENCY PREVENTION.

THESE OFFICES WERE THE ONLY FEDERAL AGENCIES THAT STATE AND LOCALS COULD IDENTIFY WITH FOR FINANCIAL AND TECHNICAL ASSISTANCE. LAST YEAR THE CONGRESS, ELIMINATED FUNDING FOR THE LAW ENFORCEMENT ASSISTANCE ADMINISTRATION, WHICH INCLUDED THE MAINTENANCE OF EFFORT FUNDS FOR JUVENILE JUSTICE PROGRAMS.

THIS YEAR, THE PROPOSAL IS TO ELIMINATE FUNDING FOR JUVENILE JUSTICE AND INSTEAD PERMIT STATES TO FUND PROGRAMS UNDER A SOCIAL SERVICE BLOCK GRANT WITHIN THE DEPARTMENT OF HEALTH AND HUMAN SERVICES. ALL ACTIVITIES UNDER BOTH ACTS, NOT ONLY THE FORMULA GRANT PROGRAMS BUT ALSO TRAINING, TECHNICAL ASSISTANCE, RESEARCH, AND INFORMATION DISSEMINATION WOULD BE ELIMINATED.

THESE FACTS CLEARLY INDICATE THAT THIS ADMINISTRATION FEELS THERE IS NO ROLE FOR THE FEDERAL GOVERNMENT IN CRIMINAL AND JUVENILE JUSTICE PROGRAMS. THE NATIONAL ASSOCIATION OF COUNTIES DISAGREES WITH THIS CONCEPT.

A SINGLE FEDERAL COORDINATING OFFICE OR AGENCY IS NEEDED. AT THIS TIME FEDERAL CRIMINAL JUSTICE ACTIVITIES ARE DISPERSED THROUGHOUT A NUMBER OF FEDERAL AGENCIES AND DEPARTMENTS. STATE AND LOCAL GOVERNMENT OFFICIALS NEED TO KNOW WHERE THEY CAN GET FEDERAL JUSTICE ASSISTANCE AND WITH WHOM THEY CAN COMMUNICATE ABOUT THE IMPACT OF FEDERAL JUSTICE POLICIES.

IN THIS CONTEXT THE FEDERAL GOVERNMENT CAN PROVIDE LEADERSHIP IN FOSTERING COOPERATION BY PROVIDING A MECHANISM FOR ENCOURAGING STATE AND LOCAL PARTNERSHIPS, CITY AND COUNTY COOPERATION AS WELL AS INTERFUNCTIONAL COOPERATION IN THE DEVELOPMENT OF STRATEGIES TO IMPACT VIOLENT AND SERIOUS CRIME, TO REDUCE THE PUBLIC'S FEAR OF CRIME, TO IMPROVE THE ADMINISTRATION OF JUSTICE, AND TO ASSIST CRIME VICTIMS.

THE NATIONAL ASSOCIATION OF COUNTIES IS WILLING TO WORK WITH THE FEDERAL GOVERNMENT AND OTHER INTERESTED GROUPS IN FORMULATING A COST EFFECTIVE PLAN TO ACCOMPLISH THESE OBJECTIVES.

EMPLOYMENT POLICY:

IN THE AREA OF EMPLOYMENT POLICY, NACO HAS MADE THE FOLLOWING DECISIONS:

CUTS NACO CAN ACCEPT

- ELIMINATION OF 100,000 CETA TITLE VI PUBLIC SERVICE JOBS.
  ($234M IN FISCAL 1981; $1.142B IN FISCAL 1982 REDUCTION)
- CHANGES IN UNEMPLOYMENT INSURANCE LAWS AS PROPOSED BY THE PRESIDENT.
  ($1.1B IN FISCAL 1981 AND 1982)
- REDUCE STAFF FOR THE UNITED STATES EMPLOYMENT SERVICE.
  (CUT $150M IN FISCAL 1982)
- REDUCE THE WORK INCENTIVE PROGRAM.
  (CUT $20M IN FISCAL 1982)

CUTS NACO OPPOSES

- ANY CUTS IN CETA TITLE II-D PUBLIC SERVICE JOBS.
  ($607M DEFERRAL IN FISCAL 1981 AND $2.81B IN FISCAL 1982 REDUCTION)
- ANY CUTS IN CETA TITLES II-B, III, IV-A, IV-C, OR VII.

CUTS NACO SUGGESTS INSTEAD OF THE PRESIDENT'S CUTS

- ELIMINATE FUNDING FOR THE WORK INCENTIVE PROGRAM (WIN)
- USE OF UNEMPLOYMENT INSURANCE BENEFITS AFTER 13 WEEKS FOR SUBSIDY OF JOB TRAINING OPPORTUNITIES AND WAGES FOR PUBLIC AND PRIVATE SECTOR JOBS.
- TAXATION OF UNEMPLOYMENT BENEFITS AFTER AN INDIVIDUAL'S INCOME, INCLUDING THOSE BENEFITS, EXCEEDS 125 PERCENT OF THE BUREAU OF LABOR STATISTICS LOWER LIVING STANDARD INCOME LEVEL.
  ($2.5B IN FISCAL 1982 SAVINGS)

AS YOU CAN SEE, WE OPPOSE CUTS IN TITLE IV-A AND TITLE II-D PUBLIC SERVICE JOBS. IF THESE PSE CUTS GO THROUGH, PRIME SPONSORS WILL BE FACED WITH A MAJOR REDUCTION OF THEIR ADMINISTRATIVE COST POOLS. THEY HAVE ALREADY BEEN ORDERED TO STOP HIRING PARTICIPANTS, AND ASSIGNED NEW ALLOCATIONS PRIOR TO CONGRESSIONAL ACTION ON THE $234M RESCISSION. A NUMBER OF BASIC REQUIREMENTS OF THE CETA LAW THEN SIMPLY CANNOT BE MET.FOR EXAMPLE, THE REQUIREMENTS TO SPEND 20 PER-

CENT OF TITLE II-D FOR TRAINING (SECTION 232(B)(2)(C) P.L. 95-524) AND TO SPEND 50 PERCENT OF TITLE VI FUNDS ON PROJECTS (SECTION 605(A)P.L.95-524) AND THE LIMITATION ON THE ADMINISTRATIVE COST POOL SIMPLY CANNOT BE MET THIS YEAR AND MUST BE WAIVED OR AMENDED SO THAT PRIME SPONSORS ARE NOT SUBJECT TO AUDIT LIABILITIES THAT ARE COMPLETELY BEYOND THEIR CONTROL. THIS MUST BE ACCOMPLISHED LEGISLATIVELY

SHOULD THE CONGRESS MAKE THESE DRASTIC PSE CUTS, THE CONGRESS MUST ALSO TAKE THE RESPONSIBILITY TO AMEND OR WAIVE THE LAW TO PROTECT PRIME SPONSORS FROM LIABILITY THAT THE CONGRESS CREATES. ONE ONLY NEEDS TO LOOK AT THE PROBLEMS AND CONFUSION CREATED BY THE ELIMINATION OF FUBA FUNDS FOR THE UNEMPLOYMENT INSURANCE BENEFITS FOR CETA-PSE WORKERS THAT THE OMNIBUS RECONCILIATION ACT (TITLE X, SUBTITLE C, SECTION 1021 OF P.L.96-499) CREATED. THIS IS A PERFECT EXAMPLE OF HOW ILL-CONCEIVED AND INCOMPLETE CONGRESSIONAL ACTION HURTS THE PRIME SPONSOR DELIVERY SYSTEM AND THE CLIENTS IT IS DESIGNED TO SERVE. WE WOULD ASK YOU TO URGE THE COOPERATION OF THE SENATE FINANCE COMMITTEE TO REPEAL SECTION 1020 OF P.L.96-499 IN THIS YEAR'S RECONCILIATION BILL. CLEARLY, THIS CHANGE IN FUBA DID NOT RESULT IN A REDUCTION IN OUTLAYS AND ONLY SHIFTED THE BURDEN FOR PAYING THESE UI BENEFITS TO CETA IN THE SHORT TERM AND TO STATE AND LOCAL GOVERNMENTS IN THE LONG TERM.

WE SUPPORT THE DEPARTMENT'S REQUEST TO REPROGRAM $245M OF PSE FUNDS TO PAY FOR THE UI LIABILITY.

WE WOULD ALSO LIKE TO BRING AN APPROPRIATIONS ISSUE TO THE BUDGET COMMITTEE'S ATTENTION, CONCERNING THE USE OF MSHA TRAINING FUNDS.

WE SUPPORT THE RETENTION OF THE CURRENT PROHIBITION FOR SPENDING MSHA APPROPRIATIONS ON TRAINING PLAN COMPLIANCE FOR THE REMAINDER OF FISCAL 1981 AND IN FISCAL 1982. THE MSHA TRAINING REQUIREMENTS ARE PARTICULARLY INAPPROPRIATE FOR COUNTY SAND, GRAVEL AND STONE PIT OPERATIONS WHICH ARE PRIMARILY SEASONAL IN USE, GENERALLY INVOLVE EMPLOYEES WORKING PART-TIME, AND ALMOST EXCLUSIVELY CONNECTED WITH COUNTY ROAD MAINTENANCE RESPONSIBLITIES. WE APPRECIATE THE APPROPRIATIONS COMMITTEE'S PAST POLICY ON THIS ISSUE AND WE ENCOURAGE THEIR CONTINUED SUPPORT.

ENVIRONMENT AND ENERGY POLICY:

IN THE AREA OF ENVIRONMENT AND ENERGY PROGRAMS, NACO HAS MADE THE FOLLOWING DECISIONS:

CUTS NACO CAN ACCEPT

- ALL CUTS FOR MUNICIPAL WASTE TREATMENT GRANTS, IF THEY ARE ACCOMPANIED BY A PROPORTIONAL REDUCTION IN WATER QUALITY REQUIREMENTS AND MANDATES.
- A PHASED WITHDRAWAL OF THESE FEDERAL GRANTS FUNDS, TO BE REPLACED WITH A LONG-TERM, LOW INTEREST LOAN PROGRAM.
- CUTS PROPOSED IN THE SOLAR ENERGY BUDGET.
- ALL CUTS PROPOSED FOR ALCOHOL AND SYNTHETIC FUELS PROGRAMS.
- CUTS PROPOSED FOR FOSSIL ENERGY.
- ALL CUTS FOR ENERGY CONSERVATION, EXCEPT IN PROGRAMS LISTED BELOW.

ALTERNATIVE CUTS NACO WILL SUGGEST

- COMBINE THE STATE AND LOCAL TECHNICAL ASSISTANCE PROGRAMS, THE ENERGY EXTENSION SERVICE, SCHOOLS AND HOSPITALS, LOCAL GOVERNMENT BUILDINGS, EMERGENCY ENERGY CONSERVATION AND THE LOW-INCOME WEATHERIZATION PROGRAM INTO A SINGLE BLOCK GRANT. FUNDING WOULD BE LESS THAN THE COMBINED CARTER BUDGET FOR THESE PROGRAMS AND WOULD NOT INCREASE THE TOTAL DOE BUDGET REQUEST. FUNDING WOULD COME FROM WITHIN THE BUDGET, AS PROPOSED.

NACo has traditionally been one of the nations most active groups in the energy area. We have supported numerous efforts to find solutions to our continued dependence on insecure energy resources. However, in reorganizing the need to bring inflation under control and to revitalize the economy we also have recognized the need to support major cuts in programs we have strongly supported. This does not mean that our belief in the importance of alcohol fuels, solar energy, coal development and conservation has diminished, it means only that we acknowledge a higher national priority.

NACo supports the overall budget as proposed by the President for the Department of Energy and we will not support efforts to increase the budget over this amount. However, we will support redistributing the funds within this function to more equitably apportion the necessary reductions.

In this regard, we would support efforts to use fiscal year 1981 appropriation levels as a base and, while exempting defense related DOE activities, reduce all program areas by an equal percentage to achieve the overall level proposed by the President. This does not mean that we would support retaining inefficient programs. The authorizing committees would be free to reallocate funds within fuel types, eliminating inefficient programs and combining others.

In addition to supporting the overall DOE budget, NACo also supports combining the programs authorized under the Energy Policy and Conservation and Production Act, the Energy Extension Service, Schools and hospitals, local government buildings, residential Conservation Service, the Energy emergency Conservation Program, and low-income weatherization into a single block grant program. Funding for this program, if the money is redistributed as we suggested would be on the order of just over $300 million.

HEALTH AND EDUCATION POLICY:

In the area of health and education programs, NACo has made the following decisions:

Cuts NACo Can Accept

- Phase out professional standards review organizations. ($38M in fiscal 1981; $119M in fiscal 1982)

- Phase out funds to health maintenance organizations. ($37M in fiscal 1981; $24M in fiscal 1982)
- End subsidies for health professions education ($219M in fiscal 1981; $280M in fiscal 1982)
- No new scholarships for the National Health Services Corps. ($16M in fiscal 1981; $31M in fiscal 1982)

Cuts NACo Will Oppose

- $1B - $2B cuts in Medicaid and "interim" cap.
- $2.6B cut in health and social services under block grant.

Alternative Cuts NACo Will Suggest

- Added state flexibility in setting reimbursement rates for services under medicare and medicaid ($750M in fiscal 1982) and other measures to eliminate statutory barriers to the development of prepaid health plans and health maintenance organizations in the public sector, which could reduce costs by as much as 20 percent.
- Cuts commensurate with administrative costs that are eliminated by consolidating programs into block grants.
- Reduce health planning funding by a percentage commensurate with cuts applied to consolidated programs.

In the area of education programs:

Cuts NACo Can Accept

- Cut education impact aid ($67M in fiscal 1981; $474M in fiscal 1982)

Cuts NACo Will Oppose

- Consolidate programs into one education block grant ($1.5B in fiscal 1982)

Alternative Cuts NACo Will Suggest

- Cuts in education block grants commensurate with administrative costs that are eliminated by consolidating programs into block grants.

In the area of health, our concerns are acute. Counties pay for a major proportion of health care for 26 million Americans who do not qualify for Medicare, Medicaid or other insurance protection, and many millions more with inadequate coverage. They operate some 800

COUNTY HOSPITALS, 800 NURSING HOMES, HUNDREDS OF COUNTY HEALTH DEPARTMENTS AND HOME HEALTH AGENCIES AND MANY OTHER SERVICES. THE DEPARTMENT OF HEALTH AND HUMAN SERVICES HAS ESTIMATED THAT LOCAL GOVERNMENTS SPENT $8 BILLION IN LOCAL TAX DOLLARS ON HEALTH CARE IN FISCAL 1980. BECAUSE OF THIS EXTENSIVE COMMITMENT, COUNTY GOVERNMENTS HAVE SERIOUS CONCERNS ABOUT THE ADMINISTRATION'S PROPOSED BUDGET CUTS IN THREE PARTICULAR AREAS: THE CAP AND PROPOSED $1 - $2 BILLION CUT IN MEDICAID SPENDING; THE 25 PERCENT REDUCTION IN FUNDING FOR BLOCK GRANTS; AND THE TWO-YEAR PHASE-OUT OF HEALTH PLANNING.

IN THE AREA OF MEDICAID, WE BELIEVE STRONGLY THAT THE CAP AND THE MASSIVE $1 - $2 BILLION CUTS WHICH THE ADMINISTRATION IS SEEKING IN FISCAL 1982 WOULD INEVITABLY RESULT IN A SHIFTING OF THOSE COSTS TO LOCAL GOVERNMENT, AND INEVITABLY, CUTBACKS IN SERVICE. THE ADMINISTRATION HAS INDICATED THAT STATES WOULD BE GIVEN ADDED FLEXIBILITY UNDER FEDERAL LAW TO REDUCE ELIGIBILITY AND SERVICES. HOWEVER, THAT ADDED FLEXIBILITY WILL NOT BE SUFFICIENT TO REDUCE SYSTEM-WIDE COSTS. MOREOVER, COST REDUCTIONS CANNOT BE ACHIEVED OVERNIGHT. MASSIVE COST-SHIFTING WOULD BE THE INEVITABLE RESULT.

INSTEAD, WE URGE THIS COMMITTEE TO ENSURE THAT SAVINGS ARE DIVIDED EQUALLY BETWEEN MEDICARE AND MEDICAID, AND THAT THE LEVEL OF SAVINGS AND THE MEASURES TO ACHIEVE THOSE SAVINGS BE STRUCTURED SO THAT COST-SHIFTING NOT TAKE PLACE. MEASURES SUCH AS THE FOLLOWING WOULD ACHIEVE THAT GOAL:

- ELIMINATION OF STATUTORY BARRIERS TO COUNTIES' DEVELOPMENT OF ORGANIZED PREPAID HEALTH CARE SYSTEMS;
- MEASURES TO PERMIT STATES TO ACT AS PRUDENT PURCHASERS OF SERVICES WHICH DO NOT JEOPARDIZE ACCESS TO OR UNDULY LIMIT CHOICE OF CARE PROVIDER;
- PROVIDE FUNDING TO STATES TO DEVELOP PROSPECTIVE REIMBURSEMENT METHODOLOGIES WHICH MIGHT ALSO BE APPLIED TO MEDICARE;
- PROVIDE FUNDING TO STATES AND LOCALITIES TO PLAN FOR THE DEVELOPMENT OF ALTERNATIVES TO NURSING HOMES AND OTHER INSTITUTIONAL CARE;
- GIVES STATES GREATER FLEXIBILITY IN SETTING RATES OF REIMBURSEMENT, INCLUDING THE ABILITY TO REIMBURSE PROSPECTIVELY, WITH COST-SAVINGS TO BE SHARED WITH PROVIDERS AND STATE GOVERNMENTS;
- ALLOW POLITICAL SUBDIVISIONS TO PROVIDE MATCHING FUNDS TO OBTAIN FEDERAL FINANCIAL PARTICIPATION FOR OPTIONAL SERVICES AND ELIGIBILITY GROUPS NOT COVERED STATEWIDE;

- Establish statewide demonstration projects to test the implementation of such concepts as the voucher system for the purchase of care, involving all third-party payers; and a long term care block grant, reasonably indexed to inflation and to age specific demographic changes, with adequate controls on access to services and added flexibility for services to be reimbursed with public dollars; and
- Allow states to reduce regulations currently requiring services and processes in hospitals and long term care facilities to free resources to develop more efficient alternative services.

On the issue of block grants, we are opposed to reducing funding by 25 percent, and strongly urge that funding only be reduced commensurate with administrative cost-savings to be realized from consolidation. Many of the categorical health programs have already been seriously eroded by inflation. Wholesale reductions for preventive services will result in far greater long term costs, since county governments will not be able to increase spending to meet the deficit.

Regarding health planning, we are opposed to a two-year phase-out of this program, and strongly urge that health planning funding be cut commensurate with cuts that will be made in other health programs to be consolidated into block grants. While we have some concerns with the existing health planning system, we do not support the view that the entire system ought to be dismantled.

Home Rule and Regional Affairs Policy:

In Home Rule and Regional Affairs policies, NACo has made the following decisions:

Cuts NACo Can Accept

- Phase out of Interpersonal Personnel Act (IPA) program, if, in light of the anticipated consequences to local governments of other proposed budget cuts, the federal government provides flexibility in the use of federal funding to strengthen the management capacity and improve efficiency and effectiveness of program implementation.

As you know, the National Association of Counties is on the record as supporting the President in his efforts to trim federal spending and to take our fair share of cuts.

But in the area of rural development programs, the Administration has proposed less than a "fair share" of cuts for local governments. The cuts revealed in the President's March 10 budget revisions have put us in the uncomfortable position of having to object to some of the Administration's proposals.

We must seriously question the fairness of a 100 percent cut in business and industrial loan assistance, industrial development grants, and rural development assistance. Most rural areas do not have the necessary investment capital needed to provide for industrial auxiliary services to attract or keep industrial development.

Of all the cuts, however, we are most concerned with the 50 percent - 60 percent cut to water and sewer loans and grants. This, coupled with a legislative proposal that would allow the loan rate to float from 5 percent to the municipal bond rate (currently 9-10 percent), could have a severe impact on the economical health of rural communities. The water and sewer program is key to rural areas. While other local grant programs are needed, adequate funding for water and sewer is crucial.

The proposal is to cut water and sewer grants from their fiscal 1981 level of $200 million to $100 million. In addition, both the grant funding and the water sewer loans which would be cut from fiscal 1981 of $750 million to $300 million in fiscal 1982, are predicated upon a proposal to increase the interest rate for loans.

This would raise additional problems for rural communities attempting to deal with water and sewer problems. Typically, small communities cannot afford large indebtedness and have limits on their bonding capacities.

We urge this committee to reject the Administration's proposal to cut the water and sewer program by 50-60 percent. In fact, we think that the need in rural America justifies these programs being funded at their current fiscal 1981 levels in fiscal 1982. But we are also realistic. Because rural people have a state in controlling government expenditures to bring down inflation, we recommend that these programs be trimmed back by 25 percent.

Cuts proposed for the Community Facilities loan program represent another 50 percent reduction, from $250 million in fiscal 1981 to $130 million in 1982. When these cuts are taken in conjunction with other proposals to eliminate the Economic Development Administration and the Applachian Regional Commission development, and the Applachian Regional Commission development programs, rural communities will again be taking a disproportional share of cuts. A more realistic amount would be 25 percent.

NACo strongly recommends legislative initiative to consolidate many of the rural development programs dispersed among agencies such as the Departments of Agriculture, HUD, Commerce, and other independent agencies. It is unrealistic to expect the consolidation implementation to happen overnight. NACo, therefore, recommends that rural development programs, especially those funded by the Farmers Home Administration, remain intact and not be eliminated. The appropriation levels for these programs must maintain a continuity that assists, rather than endangers the accomplishment of rural development goals.

Human Services Policy:

In the Area of Human Services programs, NACo has made the following decisions:

Cuts NACo Can Accept

- Amendments to the AFDC and Child Support Enforcement (CSE) programs. The amendments would: count stepparent income for AFDC eligibility; county earned income tax credit in determining AFDC benefits; standardize AFDC work expenses and cap child care deductions; require retrospective accounting; charge fees for child support collection to non-welfare families; collect alimony payments to offset or prevent welfare costs; and authorize the IRS to collect overdue child support from income tax returns. ($520 million in fiscal 1982)
- Cuts in child welfare, foster care, and adoption. New funds to be appropriated for implementing H.R.3434 (P.L.96-272), provided that states and counties are not required to implement the new law.
- Cuts in Low Income Energy Assistance. ($123 Million)
- Cuts in Community Services Administration. ($600 million)
- Cuts in the Cuban Refugee phase-down program. ($45 million)
- Cuts in the Refugee voluntary aging program. ($15 million)

Cuts NACo Opposes

- Costs shifted to local governments, under a proposed, but as yet unannouced welfare block grant.
- Title XX Social Services Block Grant. This block grant program has already achieved many savings that can be expected from program consolidation and should not be reduced again. Many counties pay the full 25 percent matching and depend on this program for the basic life-preserving services to needy citizens. ($750 million)
- Child Welfare Services, H.R.3434. We oppose any mandate to implement child welfare, foster care and adoption reforms without special funding for the legislation.
- Cuts in Refugee social services. ($24 million)
- Cuts in refugee educational assistance. ($23 million)
- Increasing refugee cash and medical assistance funding by only $13 million; to avoid shifting costs to states and counties. NACo will support an increase of $93 million.

With regard to AFDC, NACo supports the Administration's proposals that would save $520 million in fiscal 1982. Specifically, standardizing the AFDC earnings deductions and placing a limit on the currently itemized, open-ended expenses, would contribute to better management of the program and help to ensure that benefits are going to the neediest. For counties to absorb funding cuts through reduced federal participation in the basic AFDC benefits, however, there would have to be major restructuring of the welfare system. We are, therefore, carefully reviewing welfare impact on counties, in anticipation of the Administration's proposed block grant approach. If the result of that approach would be to shift welfare costs to local governments, NACo could not support it.

NACo can support consolidation of several categorical grants into one block grant. However, there are many unanswered questions as to what programs are to be included, and the conditions that would be imposed, and whether a 25 percent reduction of the current federal fiscal commitment to these programs would be so severe as to undermine the services provided under the basic block grant. The Title XX social services program is an example of an area that may be unable to tolerate that reduction: it is already a block grant, and as such has long since consolidated programs, reduced overlap and duplication, and achieved administrative savings that would accrue from consolidation. One cannot realistically expect that a 25 percent further reduction could be made up by administrative savings. Those cuts would have to come from people receiving such services as child protection or in-home assistance that prevents institutional care for the elderly.

If a block grant is accepted, adequate lead time is needed for counties and states to modify programs before the funds are cut. In addition, counties need assurance that adequate funds would be passed through to counties to preserve vital services.

NACo strongly supports continued full federal funding of refugee resettlement costs. States and counties should not have to bear the costs of implementing a federal decision—to admit hundreds of thousands of refugees—over which they have no control. Therefore, NACo supports H.R.2142, a bill introduced by Congressman Lungren (R-Calif.) which would delay implementation of the 36-month limitation on full federal funding of refugee assistance costs from April 1, 1981 to October 1, 1982. Because many refugees are unable to become self-sufficient within 36 months, such a limit on federal funding would result in a significant shift in costs to states and counties.

NACo opposes any reduction in the level of refugee social services funds, which are already insufficient, as evidenced by the fact that half of the 465,000 Indochinese refugees resettled in the U.S. since 1975 remain dependent on public assistance. Social services are badly needed to assist refugees in becoming self-reliant. In addition, to avoid a shift in costs from the federal government to states and counties, NACo will support adding $80 million to the President's request of $470 million for refugee cash and medical assistance.

In the food stamp program, the National Association of Counties stands ready to support changes which will contribute to better program management and which do not shift costs to the counties. Among these are deleting the indexing of deductions, and repeal of liberalized deductions which have not yet taken effect. Others which tend to complicate administration of the program, adding administrative costs at all levels of government, are counterproductive. The proposed school lunch offset would be a nightmare to administer and would counter the goal of reducing hunger among poor children.

Although the National Association of Counties supports efforts to control costs of the food stamp program, failure to appropriate supplemental funds for the balance of the fiscal year does nothing to change the factors that create higher costs, and it would certainly disrupt the program and highlight the nation's troubled economy. We recommend that supplemental funds be appropriated to maintain the food stamp benefits through fiscal 1981.

We suggest that the budget reductions sought can best be achieved by cashing out food stamp benefits for AFDC recipients, a measure which would save $8 million annually in federal, state and county costs in Los Angeles County alone.

LABOR-EMPLOYEE BENEFITS POLICY:

In the area of Labor and Employee benefits policies, NACo has made the following decisions:

Cuts NACo Can Accept

- Tightening of the disability insurance program. ($725 million)
- Elimination of student benefits, provided that loans to needy students be expanded to partially offset the change. ($800 million)
- Elimination of the minimum benefits, if the Supplemental Security Income program is expanded, as promised, to help the truly needy.

Regarding Labor and Employee benefits, we accept the proposed Social Security cuts-minimum benefit, student benefit, disability insurance, and lump sum death payment. With regard to indexing Social Security benefit increases we could accept a system which more adequately reflects the real inflation impact on beneficiaries if this would help the short-term financial condition of the system.

We would favor a program to offset projected Social Security increases for public employers as part of an overall tax reduction initiative. If individuals and private employers

ARE TO BE GIVEN TAX RELIEF, THEN PUBLIC EMPLOYERS WITH VERY LABOR INTENSIVE AND INCREASINGLY STRAPPED BUDGETS SHOULD BE GIVEN SOME RELIEF ALSO. SUCH A PROGRAM MIGHT ENABLE PUBLIC EMPLOYERS TO MAINTAIN THEIR EXISTING WORKFORCE RATHER THAN TO LAY OFF EMPLOYEES BECAUSE OF BUDGET CUTS AND THE INCREASED SOCIAL SECURITY TAX BURDEN.

LAND USE AND GROWTH MANAGEMENT POLICY:

IN THE AREA OF LAND USE AND GROWTH MANAGEMENT PROGRAMS, NACo HAS MADE THE FOLLOWING DECISIONS:

CUTS NACo CAN ACCEPT

- NACo OPPOSES PROPOSED CUTS IN THE COASTAL ZONE MANAGEMENT PROGRAM AND RECOMMENDS REDUCED FUNDING AND PHASING OUT THE CZM PROGRAM BY 1985, AS WELL AS CONTINUING THE SEA GRANT PROGRAM PERMANENTLY AT A REDUCED FUNDING LEVEL.
- NACo SUPPORTS CUTS IN FUNDING FOR THE LAND AND WATER CONSERVATION FUND (LWCF) PROGRAM IN FISCAL YEAR 1981 AND 1982, BUT ONLY TO THE DEGREE THAT FEDERAL ASSISTANCE TO STATE AND LOCAL GOVERNMENTS DOES NOT BEAR AN UNFAIR SHARE OF THE CUTSBACKS NECESSARY TO BALANCE THE FEDERAL BUDGET.

  NACo DOES NOT SUPPORT TOTAL ELIMINATION OF ASSISTANCE TO STATE AND LOCAL GOVERNMENTS FOR PARKS AND RECREATION UNDER THE LWCF AS PROPOSED BY PRESIDENT REAGAN.
- NACo SUPPORTS THE PROPOSED CUTS IN THE URBAN PARK GRANTS PROGRAM.
- NACo SUPPORTS THE PROPOSED CUTS IN HISTORIC PRESERVATION FUNDS.

PUBLIC LANDS POLICY:

IN THE AREA OF PUBLIC LANDS POLICY, NACo HAS MADE THE FOLLOWING DECISIONS:

CUTS NACo WILL OPPOSE

- ANY REDUCTION FROM THE $114 MILLION NEEDED FOR PAYMENTS-IN-LIEU-OF TAXES (PILT) PROGRAM FOR FISCAL 1982
- ANY AMENDMENTS TO THE PILT FORMULA THAT WOULD DILUTE COUNTY CONTROL

ALTERNATIVE CUTS NACo WILL SUGGEST

- NACo WOULD OPPOSE ANY FUNDS FOR ACQUISITION IN THE BUREAU OF LAND MANAGEMENT BUDGET. THIS WOULD HELP OFFSET NACo OPPOSITION TO ANY CUTS IN THE PILT PROGRAM.

The Payments-In-Lieu of Taxes Program (PILT) is critical to hte budgets of western counties. Enacted in 1976, the program provides minimum payments to local governments to partially compensate them for the tax immunity of natural resource lands. These lands are: national forests and grasslands, national parks, wilderness areas, fish and wildlife refuges, Bureau of Land Management (BLM) lands, Corps of Engineers and Bureau of Reclamation lands, and inactive army reserve lands.

The Administration has requested $45 million for the program for fiscal year 1982. However, BLM, which administers the program, has established that $114 million will be necessary to fund the program for fiscal year 1982. NACo endorses that amount, and strongly urges the Subcommittee to fund the program at that level.

Counties budget for and place PILT payments in their general funds. In New Mexico, PILT payments comprise over 50 percent of the general fund operating expenditures of six counties, and over 40 percent in another five counties. PILT comprises 77 percent alone of general fund operating expenditures in Otero County in that state. In Utah, PILT monies make up over 50 percent of the general fund operating expenditures for at least five counties.

Thus, if there were any reductions in the program, counties would be hard pressed to find alternative sources of funding. They would have to raise property taxes or reduce services to offset PILT reductions. Realistically speaking, most counties cannot raise property taxes. For example, Proposition 13 severely limits increases in California and Arizona recently imposed a 2% ceiling on property tax increases. Propositon 13 fever and levy ceilings are common in many states. So, many counties would be forced to reduce services, particularly in rural areas.

PILT reductions will severely impede counties in the overall battle against inflation. By state law, counties must balance their budgets. They have no lower level government with whom to share the fiscal burden. If PILT payments fluctuate, especially in counties like Otero, there is no way to make up revenue shortfalls. It is difficut to float bonds if a

LARGE PART OF YOUR STABLE ANTICIPATED REVENUES BECOME UNCERTAIN, FLUCTUATE AND PERHAPS EVEN DISAPPEAR.

FURTHERMORE, WHILE NECESSARY, PILT PAYMENTS DO NOT PROVIDE A TRUE TAX EQUIVALENCY. NATIONWIDE, COUNTIES ONLY AVERAGE ABOUT 15¢ AN ACRE FOR THE 700 MILLION ACRES UNDER THE PROGRAM. FOR EXAMPLE, IN COLORADO, GRAZING LANDS--THE LEAST VALUABLE CATEGORY OF LANDS--ARE ASSESSED AT $4.50 AN ACRE. COUNTIES NATIONWIDE ACTUALLY RECEIVE $79.8 MILLION LESS THAN THEY WOULD HAVE IF THE LANDS WERE PRIVATELY HELD.

PILT IS NOT A CATEGORICAL GRANT PROGRAM OR A GIVEAWAY. AS A LARGE PROPERTY OWNER, THE FEDERAL GOVERNMENT IS BEING ASKED TO ASSUME THE RESPONSIBILITIES OF ANY OTHER LANDOWNER WITHIN A COUNTY AND PAY ITS PROPERTY TAXES. FOR YEARS THE FEDERAL GOVERNMENT OCCUPIED VAST TRACTS OF LAND THAT WERE TOTALLY TAX EXEMPT, AND COUNTIES WHICH CONTAINED THESE LANDS HAD TO STRUGGLE ALONG WITH REDUCED REVENUES BECAUSE THEIR BIGGEST PROPERTY OWNER DID NOT PAY TAXES. REVENUES GENERATED FROM THE PUBLIC LANDS WERE NOT SUFFICIENT COMPENSATION TO MAKE UP FOR THE PROPERTY AND OTHER FORMS OF TAXES FOREGONE BECAUSE OF FEDERAL OWNERSHIP. FOR EXAMPLE, UNDER THE MINERAL LEASING ACT, THE STATES GET ONLY 50 PERCENT OF THE MINERAL REVENUES GENERATED FROM THE FEDERAL LANDS IN THOSE STATES. THE STATES ARE NOT REQUIRED TO SHARE THOSE MONIES WITH THE COUNTIES AND OFTEN DO NOT, AS IN MONTANA, NEVADA, AND NEW MEXICO. IN ANY EVENT, SUCH REVENUES CANNOT SUBSTITUTE FOR PROPERTY TAXES. IN THREE STATES, THE PERCENTAGE OF MINERAL LEASING REVENUES THAT WENT TO COUNTIES WAS 0.1 PERCENT IN WYOMING, 1.15 PERCENT IN COLORADO, AND .13 PERCENT IN UTAH. AND, REVENUES GENERATED FROM THE PUBLIC LANDS ARE SUBTRACTED FROM PILT PAYMENTS.

MOREOVER, PILT PAYMENTS DO NOT MAKE UP FOR ROYALTIES, SEVERANCE TAXES, JOBS, INCOME TAXES, AND RAW MATERIALS FOREGONE WHEN FEDERAL LANDS ARE WITHDRAWN FORM MINERAL ENTRY, TIMBER CUTTING, RECREATIONAL DEVELOPMENT, AND OTHER USES, AND PUT INTO WILDERNESS.

AS YOU ALREADY KNOW, PILT IS ONE OF THE MOST SUCCESSFUL PROGRAMS EVER ENACTED BY CONGRESS. AT A TIME WHEN THE ADMINISTRATION IS CUTTING BUREAUCRATIC AND REGULATORY INEFFICIENCY, OVERLAPPING, DELAY, AND PROLIFERATION, IT CAN POINT WITH PRIDE TO A PROGRAM THAT OPERATES WITH LESS THAN 1 PERCENT OVERHEAD AND WITH NO RED TAPE OR COSTLY, TIME-CONSUMING APPLICATION

PROCEDURES. AT A TIME WHEN THE FEDERAL GOVERNMENT IS RETURNING MORE AND MORE PROGRAM CONTROL TO LCOAL GOVERNMENTS, IT CAN POINT WITH PRIDE TO A FEDERAL PROGRAM THAT ALREADY OPERATES WITH LOCAL CONTROL.

NACo CANNOT EMPHASIZE STRONGLY ENOUGH HOW INTEGRAL THIS PROGRAM IS TO COUNTY GOVERNMENTS, PARTICULARLY IN THE WEST. WE BELIEVE IT ONLY EQUITABLE THAT THE WEST'S LARGEST LANDOWNER PAY ITS TAXES. WE ARE MOVING INTO AN EAR WHEN THE FEDERAL GOVERNMENT MUST TRULY BECOME A "GOOD NEIGHBOR", OR MOVEMENTS SUCH AS THE "SAGEBRUSH REBELLION" WILL QUICKLY GATHER MOMENTUM.

TRANSPORTATION POLICY:

ON THE AREA OF TRANSPORTATION PROGRAMS, NACo HAS MADE THE FOLLOWING DECISIONS:

CUTS NACo CAN ACCEPT

- CUTS TOTALING APPROXIMATELY $27 BILLION, EQUIVALENT IN DOLLARS TO THOSE PROPOSED BY THE ADMINISTRATION IN MASS TRANSIT, HIGHWAYS, AIRPORTS AND RAILROADS. $20 BILLION OF THE CUTS SHOULD BE APPORTIONED TO THE INTERSTATE COMPLETION PROGRAM.

CUTS NACo WILL OPPOSE

- SPECIFIC EARMARKING OF PROGRAMS TO BE ELIMINATED THROUGH CUTS. THESE INCLUDE TERMINATION OF: FEDERAL SECONDARY AID, FEDERAL URBAN SYSTEM AID, SECTION 3 NEW TRANSIT STARTS AND EXTENSION, LOCAL RAIL ASSISTANCE PROGRAM, SECTION 18 SMALL URBAN AND RURAL PUBLIC TRANSPORTATION, ELIMINATION OF HIGHWAY AND TRANSIT PLANNING FUNDS, INCLUDING PRELIMINARY ENGINEERING AND ALTERNATIVES ANALYSIS, AND PHASE-OUT OF SECTION 5 OPERATING ASSISTANCE FOR MASS TRANSIT.

ALTERNATIVE CUTS NACo WILL SUGGEST

- ELIMINATE APPROXIMATELY $20 BILLION OUT OF THE TOTAL $57 BILLION IN BUDGET AUTHORITY TO COMPLETE THE INTERSTATE SYSTEM, THROUGH CAPS ON THE NUMBER OF LANES ON INTERSTATE SEGMENTS, AND LIMITATIONS ON ESCALATING SAFETY AND PAVEMENT STRUCTURE STANDARDS.

NACo HAS ADOPTED POLICY CALLING FOR REDUCTIONS IN ALL TRANSPORTATION PROGRAMS, AND REcommended that at least $20B of the cuts be apportioned to the Interstate Completion program. This can be accomplished through caps on the number of lanes on Interstate segments and limitations on unneeded but escalating safety standards and nonstructural enhancements.

NACo will not accept cuts which earmark specific programs for elimination without a careful evaluation of the impact of such actions on the nation's transportation infrastructure and the ability of its local governments to finance and continue these programs. Congressional hearings such as those being held by the House Budget Committee should also be held by the appropriate authorizing and appropriations committees before cuts of this magnitude are approved.

In the area of Mass Transit, NACo submitted detailed testimony on March 19, 1981, to the House Budget Task Force on Transportation, Research and Development and Capital Resources regarding the impact of the Administration's proposed phase out of the federal operating assistance program on the public transportation infrastructure of the nation's counties. A copy of this statement is included as back-up information for the Committee.

Severe cutbacks in operating subsidies for urbanized areas below 750,000 can be expected by the end of 1983. The phase out of the entire program will result in substantial fare increases of as much as 200% by 1984 in county transit systems, such as that of Allegheny County. Linked to fare increases, will be a dramatic drop in ridership levels. A Somerset County official estimated a 25% loss of ridership was possible throughout the state of New Jersey. Allegheny County not only calculated a ridership loss of at least 9% but has estimated that layoffs of 495 administrative and operating staff would be necessary. In addition, there would be increased strain on local and state budgets to compensate for lost federal assistance. In Milwaukee County, this will mean increased property taxes creating a crunch on local taxpayers faced with funding major sewage problems, medicaid increases and transit costs from the same source. Current property taxes are already high and the county share of transit expenses has quintupled in 3 years. The state is not a likely source of much more assistance since its share is already generous and escalating at 40% of the transit costs.

Additional impact cited by transit officials included a 15% cutbacks in service in Allegheny County, loss of toal service on transit routes in Fresno and St. Louis Counties, and a total wipe out of public transportation in Somerset County, New Jersey.

The Administration's proposal to reduce and retarget Section 3 capital grants to "Systems of proven effectiveness"will preclude new transit starts in growing Santa Clara County despite the completion of extensive alternatives analyses and the expense of preliminary engineering studies in progress. The lack of any stable and reliable sources of federal seed money will have a chilling effect on sincere efforts to build local financial and political support for such cost effective light rail projects. In addition, federal delays in funding essential portions of transit projects under construction like Dade County's will result in added expense and wasted local, state and federal dollars.

The Administration's proposed phase out of the Federal Aid Secondary and Urban Systems by 1985 will eliminate the major sources of federal assistance to maintain county roads throughout the nation. This is particularly burdensome for counties because of another Administration proposal to terminate the local Rail Assistance Program which enables localities and shippers to continue needed rail freight service throughout the nation's agriculture regions. The immediate termination of this program will put increasing numbers of heavy trucks on deteriorating secondary roads. This will aggravate severe maintenance problems revealed by DOT's recently completed report on *The Status of The Nation's Highways*. Though 90% of the paved secondary road mileage in this country will need replacing by 1990, the Administration budget proposes to terminate federal assistance for secondary roads by 1985. In addition, it provides no incentives in its budgetary or legislative proposals to the states to raise taxes to remedy these problems.

The Administration is to be commended for proposing continued federal assistance for the Bridge Replacement and Rehabilitation Program. However, given the magnitude of the replacement and rehabilitation needs identified by DOT's recently completed inventory of on and off system bridges, a budget authority level at least equivalent to that proposed by the previous administration at $1.025 billion is more appropriate than the $900 million in the Reagan budget.

In the area of highway safety, the Administration proposes to phase out all programs except those dealing with alcoholism and emergency medical services. This will further strap counties in rural areas attempting to correct structural hazards and serious deficiencies in road signs and markings. In addition, the program areas the Administration has chosen to emphasize have not been proven to be as productive in saving lives as the 55 mile-an-hour speed limit or helmet use laws.

While NACo agrees that budget cutbacks are necessary in all transportation programs, the 33% across the board cuts in airport grant programs need to be as carefully examined as do the cuts in other modes. The best strategy again would be to hold hearings to determine where cuts can be responsibly and effectively made.

Defederalization is not endorsed by NACo's Transportation Steering Committee since it will arbitrarily eliminate funding for large airports like Milwaukee County's and make termination of all federal support much easier by removing the most influential recipients from the program. In NACo's judgment, a stable and reliable federal source of funds is needed to maintain a truly national airport system.

Furthermore, increase in aviation fuel and user taxes, such as those proposed by the Administration, should be directed primarily to improvements in airport development and aviation safety rather than simply supporting agencies such as the FAA which are essentially regulatory in nature. Cutbacks in the Section 406 subsidies should also be reviewed for their impact on the aviation community as a whole.

In the rail area, the NACo Transportation Steering Committee continued its support for an adequate national system of railroad passenger and freight service. While acknowledging the need to reduce growing rail subsidies, NACo policy supports cutbacks commensurate with maintaining an effectively functioning national rail passenger and freight network. It also endorsed restructuring but not eliminating the Local Rail Assistance Program to target federal funds to areas in need of such assistance.

FINALLY, THE ADMINISTRATION'S TRANSPORTATION BUDGET WOULD REDUCE THE SECTION 18 SMALL URBAN AND RURAL PUBLIC TRANSPORTATION PROGRAM TO $75 MILLION AND ELIMINATE ELIGIBILITY FOR OPERATING ASSISTANCE BY SEPTEMBER 30, 1982. THIS WILL EFFECTIVELY SHUT DOWN MANY NEW PUBLIC TRANSPORTATION PROGRAMS IN SMALL URBAN AND RURAL AREAS THROUGHOUT THE COUNTRY. IT WILL ALSO REMOVE THE TRANSPORTATION "SAFETY NET" FROM THE MANY ELDERLY, HANDICAPPED AND DISADVANTAGED RIDERS WHO USE SUCH SYSTEMS.

IF CUTS OF THE PROPORTIONS PROPOSED BY THE ADMINISTRATION ARE JUDGED APPROPRIATE AND NEEDED, FLEXIBILITY IN THE USE OF SHARPLY DECREASED FUNDS IS IMPERATIVE RATHER THAN ARBITRARY FEDERAL DICTATES, SUCH AS THOSE STATING THAT RURAL PUBLIC TRANSPORTATION OPERATORS CAN NOT USE THEIR FEW REMAINING SECTION 18 FUNDS FOR OPERATING ASSISTANCE. THE OPERATORS AND THE LOCAL GOVERNMENTS WHICH SUPPORT THEM CERTAINLY KNOW BETTER WHAT THEIR NEEDS ARE. LET THEM MAKE FLEXIBLE AND CREATIVE USE OF DECLINING FEDERAL DOLLARS. THEY CAN DETERMINE WHETHER THE BEST USE IS THE PURCHASE OF ANOTHER VEHICLE OR TO MEET THE RISING COSTS OF SERVING WIDESPREAD RURAL RIDERS.

I APPRECIATE THE OPPORTUNITY TO TESTIFY THIS MORNING, AND LOOK FORWARD TO ANSWERING ANY SPECIFIC QUESTIONS YOU MAY HAVE.

Chairman **Domenici**. I think we will proceed, before we question, to hear from the Conference of Mayors.

Senator Quayle, did you want to be heard before the mayor testifies?

Senator **Quayle**. Very briefly, Mr. Chairman. I thank you.

I would like to welcome a very distinguished constituent of mine from the State of Indiana. Mayor Hatcher, you have been a very outstanding and persuasive mayor for the city of Gary, and I welcome you to the Committee. Even though we happen to be on different sides of the political fence, and at times disagree, we are willing to work together. I am sure, Mr. Chairman, that you will find his testimony of great benefit, something that we can digest and thoroughly discuss. Mayor Hatcher, on behalf of the committee and the people of Indiana, I thank you for participating and giving us your thoughts.

Thank you, Mr. Chairman.

Chairman **Domenici**. Thank you.

Mr. Mayor, before you testify, I would ask that while you are testifying, Mr. Orr, perhaps you have already done this, but not taking into consideration new suggestions that you make for cuts, would you and your staff do the arithmetic for us and tell us of the President's package how much you do not support in dollars.

Mr. Mayor?

STATEMENT OF RICHARD G. HATCHER, PRESIDENT, U.S. CONFERENCE OF MAYORS, AND MAYOR, GARY, IND.

Mr. **Hatcher**. Thank you very much, Mr. Chairman, and I want to express on behalf of the U.S. Conference of Mayors, and certainly on behalf of my own city, our appreciation for the opportunity to be here and to testify and, I am also especially pleased and delighted that our own Senator, Senator Quayle, is present this morning, and recognizing your former responsibilities as a mayor, I realize that we come this morning to a very receptive and sympathetic committee.

I believe that we have a—have prepared a 76-page, I believe, analysis of the proposed budget cuts, and I certainly will not bore you this morning with each line on each page of that document, but it is available, and we would like to make a copy of it available to the members of the committee.

In addition to that, not so very long ago, the U.S. Conference of Mayors prepared another document entitled "An Urban Investment Strategy for the United States of America," and in that document attempted to provide some suggestions and recommendations respecting the budget, and some alternatives with respect to cuts.

Again, we would like to make a copy of that document available to the members of the committee.

Chairman **Domenici**. Are you submitting it today?

Mr. **Hatcher**. We have at least one copy of it with us, of the budget analysis, and we will submit that to the committee sometime today. If not before this hearing concludes, but we will get that to you.

Chairman **Domenici**. Thank you very much.

BUDGET CUTS—BOLD SOLUTION OR SERIES OF OBSTACLES

Mr. HATCHER. Therefore, my statement will be somewhat brief, and hopefully not as specific as those two documents.

In this era of new beginnings, the homes, the schools, the factories, and most importantly, the people of America face the same old problems. They are, from the viewpoint of the U.S. Conference of Mayors, the question before this committee today and the Senate is whether these severe budget cuts represent a bold solution, or just one more in a seemingly endless series of obstacles that the poor, the ill-educated, the jobless, and the infirm must overcome.

I recognize, Mr. Chairman, that in view of the action taken up to this point, by the Senate, that to some degree, our discussion this morning may be academic. Nevertheless, I believe that it is important to raise certain questions before you, and very frankly, to question some of the fundamental assumptions that are inherent in the cuts that are being considered.

First of all, I am not aware of a detailed systematic effort to ascertain the impact of these cuts on local communities, on cities and States, as well as the people who reside therein.

In the absence of such an analysis, it would seem to me that we are undertaking a very risky route by proceeding with those cuts before that is done.

PROMISE OF AMERICA

Since January of this year, Washington has been charmed to some degree by a new ethic, a new psychology in Government. No longer will the Federal Government throw its money at problems. No longer will it attempt to use its immense resources as a positive agent of social change. No longer will it lead our Nation to that hoped for Promised Land, but instead, it will adapt, what I fear is an easy fiction, that we have already arrived at that Promised Land.

I would suggest this morning that we are not there yet. Too many of our citizens are still without work, they are without food, without health, and without hope for us to conclude that indeed America is a land of milk and honey.

Just this morning the Labor Department has released statistics that indicate that joblessness among black and minority teenagers, for example, jumped to nearly two points, to 27.3 percent, that is a clear indication that we still have very serious problems that can only be addressed by the Federal Government.

Quite simply, the new ethic in Washington abdicates too easily the responsibility of the Federal Government to deliver on that promise called America.

JOB OPPORTUNITIES

The promise of America, for example, would allow each man and woman the opportunity to hold a job decent in wage and respectful of ability. In proposing to eliminate 310,000 CETA jobs, it is noteworthy that 41 percent of all CETA jobs are held by youth under the age of 22 and 95 percent by the disadvantaged. By eliminating these jobs, terminating the Economic Development Administration and weakening significantly the private-public partnerships created by the urban development action grant program, or the UDAG, the administration and this Congress threaten to break America's promise to the poor and the young.

NUTRITIOUS MEALS AND FULL STOMACHS

The promise of America would allow each man and woman the opportunity to have a nutritious meal and a full stomach. In proposing to declare millions of families ineligible for food stamps and to reduce the level of Federal support for school lunches, the administration and this Congress threaten to break that promise.

SAFE, SANITARY, AND SOUND HOUSING

The promise of America would allow each man and woman the opportunity to occupy safe, sanitary and sound dwellings without becoming servants indentured to excessive rents or impossible mortgage rates. In proposing to delay repair of public housing units, to increase by 30 percent the cost of rent at federally assisted units, to eliminate the section 312 rehabilitation program, and to reduce the community development block grant and home weatherization programs, the administration and this Congress threaten to break that promise.

EDUCATIONAL OPPORTUNITIES

The promise of America would allow each man and woman the opportunity to seek an education by which their skills in both the private economy and public life of our Nation would be improved. In proposing to reduce assistance to local school systems, to retreat from its commitment to adult and vocational education, to restrict eligibility for student loans, the administration and the Congress threaten to break that promise.

CITIES AND TOWNS WITH FULL SERVICES

The promise of America would allow each man and woman the opportunity to live in cities and towns fully able to provide the services for which they were originally formed. In proposing to reduce funds for mass transit, local roads, Amtrak, waste treatment, airport development, and urban parks, the administration and this Congress threaten to break that promise.

POOR ASKED TO SUPPORT COST OF BALANCED BUDGET

Judge Samuel Seabury once wrote that the poor, the hungry and the jobless "are not asking for favors, but insisting upon equality of opportunity and the full measure of freedom which permits them to receive or suffer the consequences of their own actions." That is the promise called America.

As a result of Government activity over the last 20 years, our Nation has cut almost in half the number of its people officially poor. Yet, under the proposals being considered by your committee, this 12 percent of America's people who are poor are being asked to support 60 percent of the cost of a balanced budget.

Chairman DOMENICI. What is the standard of "officially poor" that you are using?

Mr. **Hatcher**. I think we are using the Labor Department's figure, Mr. Chairman, of approximately $8,000, earnings of $8,000 or less for a family of four.

Chairman **Domenici**. Then I would question your 60-percent figure based on that. If one wants to call everyone who receives assistance now, "poor," I would not question you, but I would question an $8,000 annual earnings versus the cuts, and I would seriously question whether they will bear 60 percent of the cuts.

Mr. **Hatcher**. Mr. Chairman, again the reason we hope to make available to the committee the document that the, the analysis that we prepared, is that we think it provides at least the rationale in the documentation for the conclusions that are contained in my statement.

BUDGET CUTS WILL NOT HURT THE OFFICIALLY POOR

Chairman **Domenici**. Let me just tell you, Mr. Mayor, if that is your test, not one of those will be hurt by the food stamp reduction, because it is at $11,000. Not one of those children will be hurt by the school lunch change, because it starts somewhere around $14,000. Very few will be hurt by the change in public housing, because the title VIII changes that are being made could be readjusted with criteria being only the poor, and the level that is left would be more than what we have been putting in, because we do not have that kind of test on housing.

You measure the failure of this new program versus promises. The promise of America, the promise of America, you use that over and over again, but the first statistics you use, indicates that what we have been doing has been failing. We have not changed CETA as of today, and the unemployment of the youth went up, so it would seem to me that whatever we have been doing, has not been living up to the promise.

Your statistics might be right, that we have one-half less officially poor than we did *x* years ago, but I question whether the promises you have enumerated have been fulfilled, but for possibly that one, with the programs that we have tried.

CUTS WILL AFFECT WORKING POOR AND MIDDLE CLASS

Mr. **Hatcher**. If I could respond, first of all, Mr. Chairman, to your first point.

Our concern, and again, I think that is expressed both in this statement as well as the other documents that we hope to make available, of course applies to not only the officially poor, that is those who are officially measured by certain criteria, and utilized by the Labor Department. We are concerned about the working poor.

We are concerned, very frankly, beyond that, about the middle class in this country, and our feeling is that these cuts, while I am sure you are correct in suggesting that all of these cuts do not affect the officially poor, they certainly will affect pretty heavily the working poor, and of course, the middle class in this country.

I might say that beyond that we have a concern that if in fact you measure those programs which are aimed at cities specifically, that a disproportionate number of those groups live in cities, first of all, and second, that disproportionate amount of those cuts will affect programs that currently are being received by both cities and States, that is, State and local governments in this country.

We recognize also, Mr. Chairman, if I might just interject there, that our position may represent at least, at this point, and in the current climate, somewhat swimming against the wind, or swimming upstream. But we believe very strongly that the position that we are taking is not really in the best interest of the cities of America, but in the best interests of this country, and too, for us not to raise these questions, I think, you know, our conscience would not permit that.

Chairman DOMENICI. Of course.

STATE AND LOCAL GOVERNMENTS FORCED TO ABSORB CUTS

Mr. HATCHER. If I might proceed and, I am almost at the end of the statement.

I also want to mention the fact that we do think that some of these programs have worked, we think it is a mistake to suggest that they have not—there are some which have not, we concede to that, but we think the vast majority of the programs that we are talking about here have in fact been beneficial.

As I just said, grants to State and local governments would bear more than their share of the proposed cutbacks. While constituting less than 15 percent of the total Federal budget, aid to States and localities would be forced to absorb 66 percent of the administration's fiscal year 1982 budget cuts.

Moreover, the administration's proposed individual income tax cut provides only 19 percent of the total benefits to that 63 percent of the taxpayers with adjusted gross incomes below $20,000. I believe the figure for $30,000 is about 50 percent.

If the American promise called equality of opportunity is ever to be achieved, the Federal budget that you adopt cannot be based on inequality of responsibility and reward.

SIX-YEAR DEFICIT CREATED BY INCREASED MILITARY SPENDING

Despite its budget-cutting efforts—and here is where, as I said earlier, the fundamental assumptions behind many of these cuts I think have to be questioned—the administration is projecting that at the end of the next 6 fiscal years the Federal budget will be in deficit by an additional $85 billion. Under this projection, it is not programs for the poor, the jobless, or the hungry which will create the deficit. Instead, according to the New York Times, this 6-year deficit is almost exactly the amount by which the administration proposes to increase military spending. In the name of a balanced budget this committee feels compelled to say no to the poor and jobless, I hope you will be equally quick to say no to the Pentagon.

MAYORS SUPPORT CERTAIN PROGRAMS

As mayors, we do not oppose a strong national defense. In fact, we support that, and have supported it consistently. But it must be a defense against both foreign aggression and domestic decline.

As mayors, we do not want the Federal Government to merely throw money at problems. But we also do not want the Federal Government to be stingy in seeking solutions to real problems.

As mayors, we do not favor excessive Federal regulations which interfere too much in our daily lives. But we do favor the very necessary Federal regulations that promote health and safety and insure equal opportunity.

As mayors, we do not oppose block grants and other administrative reforms that would give cities more responsibility, in fact, we have attempted to provide some leadership in support of the block grants approach. But we do object if these reforms are accomplished by fewer resources.

And as mayors, we support efforts to curb fraud and waste in Government. But we believe it equally essential to prevent the terrible waste of human talent and aspirations that too many of these budget cuts will insure.

This budget threatens to kill the dreams of the young, the hopes of the sick and infirm, the best-laid plans of the retiree, the ambitions of the jobless, the aspirations of homeowners, the opportunities of the small businessman, and the pledges of State and local officials.

In the weeks and months ahead, we want to work with you on a budget, which, rather than threatening the potential of our cities and their people, will help them realize it.

Thank you very much, Mr. Chairman. I will be happy to respond to any questions.

Chairman DOMENICI. Thank you very much, Mayor.

Before I yield to my colleagues, did you arrive at that figure for me, please?

AMOUNT OF PRESIDENT'S PACKAGE NOT SUPPORTED BY NACO

Mr. ORR. Yes, Mr. Chairman.

We believe in fast addition here. The things that we propose would be about $10 billion. However, the alternatives would amount to about $4.7 billion, which would be a $5.3 billion difference. But this does not take into consideration any savings, or consolidation in our personnel, as in the area of health and education, where we suggested that a savings of $750 million in 1982 could be made by adding to the States' flexibility, in setting reimbursement rates for medicaid. We also feel that to eliminate the States' barriers in prepaid health plans, as we testified, could reduce costs as much as 20 percent. We have no idea what that amounts to in dollars.

But down to the hard figures, it is $10 billion versus an alternative amounting to $4.7 billion. It would be a difference of $5.3 billion. I know that you and your staff will take these things into consideration, and want to compliment you and your staff on your work.

The National Association of Counties support the President in his efforts. I think we received a very nice letter back from the President, dated March 11, thanking us for our support. We understand that we do get into discussions for months, and your priorities might not be my priorities, but the counties are saying that we realize the time has come and we cannot overspend any longer. Our basic philosophy is we are willing to take our pro rata share.

We do not want to be the only ones who take the cuts, and we want to be sure to retain certain programs, like revenue sharing, because that is money wisely spent. I guess the reason we believe it has been so successful, it because it is aid without strings attached, which we can use to serve the needs to which Mayor Hatcher testified. We feel we can administer it much cheaper than the agencies in Washington, D.C.

As I understand, only about 83 people may be heading up the revenue-sharing bureau, so we do not necessarily need a Federal bureau to head it up. We are willing to do that.

We (NACo) think we came up with a reasonable approach which we hope you will consider. Again, we appreciate it.

TIME FOR ASSIGNMENT OF RESPONSIBILITIES

Chairman **Domenici**. Thank you very much.

I am going to next insert the testimony of Hon. Richard Riley, National Governors' Association, which was submitted for the record. I do not know if my colleages have had an opportunity to review it, but since it has attached an article that I wrote on February 11, 1976, I think you ought to read it.[1]

I asked whether the Federal Government had to do everything, and suggested that it was time to move toward some assignment of responsibilities. The Governors seemed to like that, and called it "sorting-out." We ought to be going through a "sorting-out" process.

I know that is not new, either. I think President Eisenhower started that with some kind of studies on which level of Government ought to do what.

But let me just make two more observations, and then I am going to yield to the two of you, and if one of you would conclude the hearing, I would be most appreciative. There are no other witnesses, so you would be here just as long as you have questions.

Can you do that for 10 or 15 minutes, one of you? I think that is all we would have.

Senator **Gorton**. Yes.

TRANSITION FLEXIBILITY

Senator **Domenici**. Let me just say to you, Mayor Hatcher, while I might not agree with you in terms of how effective our programs have been, I would say to you that I am firmly convinced that had we had a slightly different climate for receptivity to change over the past 5 or 6 years, we probably would not be here today.

But when you look at any suggestions made for consolidation of grants, for blocking of grants, for a little less money in one of the programs, that really was questionable. You look over the last 6 or 8 years, and the pressure was all "more of the same." I think you would agree with that.

We did not block, we did not want to trust our cities, we did not want to trust our States, and as a result, the signals were all there. They are just a little more dramatic today, but we knew we had to come to a day of reckoning on how much the National Government would really spend.

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[1] See p. 370.

Having said that, I want to say to you that while this committee really does not have any authorizing jurisdiction, and we really do not have a way to assure the minimum transition trauma, I want to tell you that I am very concerned about that. I think it is difficult to go from the way we have been doing business, which some call business as usual, to something very dramatically different, even if I feel there is a better way. You cannot get there that quickly.

I think one of the real challenges is some kind of transition flexibility. I do not know how that should evolve yet, but I want to tell you, not only individually, but as a leader of a very big group of dedicated American elected officials, that this Senator believes yours are absolutely the most difficult responsibilities in the Nation short of the President. I really think mayors have a much more difficult daily job than Governors.

I have no reluctance in telling you, I think they have a much more difficult job than Senators. I was one once, and just so you will know, it was during the Watts time, and the burning in Washington, and I lived through 2½ years of trying to make sure that that did not happen in my city, and I did everything from standing on my head to taking city hall out to the barrios, and moving it to the poor areas, and conducted city hall there once every 2 weeks. We did everything that was available in those days.

BETTER PROGRAMS WITH LESS RESOURCES

Looking back at it, I am firmly convinced that if this era is going to succeed, it is going to be an era that finds a way to do what we have been trying to do, and do it better, and with less resources, and giving you and the Governors more control over the programs. At the same time it must go back to some very basic things of building back the economy, and incentives into the middle class, and to those that have to take a risk to make things happen in the country.

I think that is the challenge. I am not certain that this program will do that. I do not think anyone knows precisely what will do it, but I frankly believe when you look at the next 4 or 5 years, that you must start with somewhere around $35 billion, in diminished growth this year. How that is best distributed about will be a real tough challenge for the collective Congress. We tend to do things that way, though.

We do not take a little bit of medicine at a time up here. I think you know that. We take a big dose, and that is probably what we are going through right now.

But to you in your official capacity, I would hope that you and your staff would assist, as these legislative changes work their way through the authorizing committees. I personally hope we do not impose the whole burden on the Appropriations Committee.

I am not sure you appreciate the significance of that, but if we do not change some laws, and we merely order a reduction, at some point in time 4 months from now, the members of the Appropriations Committee will not have any direction, and they will not have any changes in the laws, and they will be looking at $25 billion in cuts.

I think while I have the utmost confidence in them, I think they will have a tremendously difficult time in doing that with any kind of transition adjustment, because the mandates will all be there, be it education, or be it some of your programs. So I hope you will help us with some transition-type input, and while I am not on Finance, Labor and Human Resources, which will bear a big part of this, and the Appropriations Committee, I truly will do everything I can to try and come up with some ways to facilitate this transition as we move to different ways of handling the kind of assistance for the kinds of people that you are concerned about here today.

Now, I am going to have to leave, and I am going to leave the committee in the hands of—yes, sir?

Mr. **Orr**. I noticed when you were talking about the responsibilities of the cities and States, I trust you included the counties?

Chairman **Domenici**. Absolutely. I want to say it has been tremendous to see the growth and the responsibilities that counties have assumed, and the leadership and the expertise that they have, from the old county commission days that you and I knew about, days ago, to what they are doing now. It is tremendous, and I felt just in the last 5 years, the kinds of people they have sent up to help us with legislation is a real credit to them, and in many States they have a greater responsibility than the cities. It is not just homogeneous.

I apologize for the oversight. You should have been included in it. I still submit that a county commissioner is not quite under the gun as a mayor of New York or Chicago.

Mr. **Orr**. It just depends on where you are sitting.

Senator **Gorton** [presiding]. We can go on to about 20 minutes after 11.

Senator Quayle has even less time than I do, so we will permit him to question first.

INFLATION HAS BECOME MAJOR PROBLEM

Senator **Quayle**. Thank you very much, Mr. Chairman.

I certainly thank the panelists and echo what the chairman said. We are in the process of trying to go in a direction that will produce a better economic climate in this country.

I want to thank you, Mayor Hatcher, for your excellent statement. It pricked the social conscience of all of us. You spoke about education, the poor, the sick, the jobless, and homeowners. These are areas of great concern.

Your statement might be entitled, "the Promise of America." You use that phrase many times. In your concluding conclusion, you said that this budget threatens to kill the dreams of the young, the hopes of the sick and infirm, the best-laid plans of the retiree, the ambitions of the jobless, the aspirations of the homeowners, the opportunities of the small businessman and the budgets of State and local officials.

I reread your testimony as you were going through it. There is just one thing missing which I feel is very, very important. The element that this budget and the economic plan of this administration is trying to get a handle on, and is not discussed in your statement. It is the promise of America to do something about inflation.

The word, "inflation" is not in your statement. It is a very good statement, as I have said. I would say that every one of these vital issues that we are talking about, inflation has got to be a problem, particularly for State and local officials. You might want to respond to that, because reducing inflation, at least from this Senator's perspective, is what we are trying to do.

We could go back to the days of the Great Society, and the very worthwhile social problems that came out of that period. I do not think anybody is disputing the intent of these programs. But since that time we have seen inflation go from 1 percent to 12 percent, and interest rates grow from 3 percent to 17 percent. This has got to be a problem.

Maybe you can address that, if you could?

BALANCED BUDGET WILL REDUCE INFLATION

Mr. HATCHER. Mr. Chairman—or, Senator, let me say, first of all, that your point is a good point, and I appreciate the fact that you have raised it, and I realize you have just seen the statement, and there is no opportunity to really go through it, there has been opportunity to go through it very carefully, but that is a point made in this statement that suggests by the administration's own assessment or analysis, and by the very best analysis that we have been able to see from the Congress, that if in fact the administration is successful in all that it is attempting with the budget cuts, with the tax cuts, and the other economic policies that it is proposing at this point, that inflation will be affected by something less than 1 percent.

If we have a balance, if we are about to achieve, within a period of about three years, a balanced budget, that will effect inflation, that is, reduce inflation by something less than one percent, and that is the point that I was attempting to make when I said there are some fundamental assumptions, because, as you know, the people out in Indiana are not as sophisticated about many of the actions and activities that the Congress is taking, as perhaps you might be, or I might be, as a mayor, who is very concerned about many of these things, but if you ask, I suspect the average Hoosier, and I have to take this opportunity to tell you, Mr. Chairman, that we have a basketball team that has demonstrated to the people out here in the East that we play a fairly good brand of basketball out there, but if you ask the average Hoosier whether the actions that the administration is proposing, and some degree have been enforced by this committee and the Congress, or in the Senate, at least thus far, will it reduce substantially, is the promise to substantially reduce inflation, I think they would say yes. They would say yes, that is what we expected to do, but in fact, the very best analysis available thus far indicates that that will not in fact be the case.

I might just add that there are two things regarding the U.S. Conference of Mayors that I think are important here also.

BLOCK GRANTS

First of all, the U.S. Conference of Mayors led the way under President Nixon for a—for general revenue sharing, which was the first real, I think, approach—block grant approach. We advocated that, worked for it, the President supported it, and passed it, and it became law, and it has been a big help to us.

We subsequently supported block grant programs for employment, for housing, community development block grants, and in at least two or three other areas, we are currently advocating block grants in the area of energy, for example, and so it is not that we have rejected the notion of the block grants approach as opposed to categorical grant programs and then, the second point that I think is very important, and one of the reasons why you find perhaps some difference of opinion between my colleague, Mr. Orr and myself, this morning, is that over the last 3, 4 years, under the previous administration, there were cuts, for example, substantial cuts in the housing allocations, and housing programs.

SOME PROGRAMS HAVE ALREADY RECEIVED CUTS

We took cuts in that area. We have taken a reduction in the CETA program in the last 3 or 4 years. So again—and I could point out other areas where there have been reductions, so again it is not a matter of always coming and saying we want more, we want more, we want more.

What we are saying is we have already received cuts that have put us, as mayors, and as city officials, in almost desperate—an almost desperate situation in some instances in trying to provide basic services to our people of our cities, and that we feel to place the burden of assuming that cuts must be made, but to place the burden on someone, two out of every three of those cuts, or dollars being cut on the cities of America, is unfair, and that is why, as I said, we are here this morning, and not because we do not recognize the problems that you, as Members of the Senate have, and that this administration has, in controlling inflation.

ECONOMIC PACKAGE TRYING TO REDUCE INFLATION

Senator **QUAYLE**. Thank you.

The chairman has told me that my time is up so I will conclude with a brief statement.

Let us grant this administration's proposal, that inflation will go down. Economic assumptions and political guesses, have a lot in common, when they do not come through, both economists and politicians offer an excuse. Their assumption is that inflation is going to go from 12 percent to 5 percent by 1984, which is very significant. The vote yesterday, on budget reconciliation, was 88 to 10, which shows that there is a consensus to do something about the budget. I believe, 1961 was the first $100 billion budget of this country, and after only 20 years we are now close to a $700 billion budget. This economic package, which I support, is trying to do something about inflation substantively. That is what we are really concerned about.

We are not going to abandon the social programs you brought up, which are very good. We all support the intent and goal of these programs.

We are going to continue to try to expand the private sector. We do not think providing a job one day and taking it away the next is good policy. We would like to see permanent jobs in the private sector. We are talking about enterprise zones as a way to create job activity within the inner cities. I appreciate your comments and your coming here this morning, Mayor Hatcher. And I thank the chairman for his patience.

FUNCTION AND GOAL OF NATIONAL DEFENSE POLICY

Senator **Gorton**. Mayor Hatcher, today, at least, you are more the subject of speeches and testimony than is Mr. Orr because your prescription is more radically different than those which underline the work of this committee so far.

But maybe for both of you here, I could summarize my perception of where we are and ask you what may be a difficult question. But if you can answer it, it could be helpful and enlightening to a number of us.

It seems to me that there is broad national agreement which certainly includes not only those of us on this side of the table but you, too, as witnesses, that we do have two economic problems in this country which we must address.

The first is inflation, which we need to slow down to bring under control as quickly as possible. The second is growth, economic growth. We need to provide for economic growth in our Nation.

The President proposes to do this, at least within the frame of reference of the direct control of Congress by very significant cuts primarily in discretionary spending, leaving intact most social entitlement programs such as social security; by drastic cuts in taxes and across-the-board basis, and for business. While, at the same time, substantially increasing appropriations for national defense. Those three features in them.

The position of Mr. Orr, for the National Association of Counties, while it does not deal directly with defense, agrees with the general framework of what the President proposes to do in the spending field, at least, although it does say cut fewer of our programs and take it out of some of your own like the Interstate Highway System, in order to reach some kind of balance.

Your position, Mr. Hatcher, which is a little less complete but I think not inconsistent with that of the Congressional Black Caucus from which we heard yesterday, is please do not cut nearly so severely, if at all, a broad range of social programs which deal with individuals and which are outside of the entitlement area. But very seriously perhaps do not increase the national defense but get—or perhaps do not increase it nearly as much as you do.

The Black Caucus said in the effect increase taxes, gilded it a little bit, but nevertheless it was to increase taxes and very substantially cut defense.

Now, it is clear, I suppose it seems to all of us, that, taken at the most drastic, if we cut $90 to $100 billion out of the proposed defense budget, whatever else that leaves us, we would not have to cut the programs that you talked about, we probably could come up with the tax cut as well. The problem is, of course, and this is my question to you, what is the function and the goal of our national defense policy and when and how can we determine whether or not we are using means adequate to meet that goal?

Mr. **Hatcher**. Well, first of all, if I might respond, Senator.

Senator **Gorton**. Please do.

DO NOT TAKE MONEY FROM SOCIAL PROGRAMS FOR DEFENSE

Mr. **Hatcher**. Because I think it is easy for me to respond to that by simply saying that I am not an expert on defense and, therefore, probably anything I say in that area, you know, has to be taken in that light. But it does seem to me that a serious question is raised. I believe what is proposed roughly over the next 2 years is something approaching $60 billion in terms of increasing the defense budget. I do not understand the difference—I do not understand cutting $37 billion or whatever the figure might wind up being in the area of domestic programs, increasing the defense budget by $60 billion, and then saying that you are fighting inflation.

In other words, I believe defense dollars spent are more inflationary than investments in cities and in social programs because they produce some immediate results when those investments are made. So that is my first problem with this approach.

Second, I do not think that I, our approach at least, that is the U.S. Conference's approach to the question of the budget cuts, is simply leave everything as it is. In fact, we are suggesting, first of all, in the area of tax cuts, we are suggesting targeted tax cuts, that, for example, will be targeted toward the less—the most needy, so to speak, that would be targeted toward cities that have to pay certain Federal taxes, reduction in those taxes, or national employee taxes. We are saying use the tax cut weapon in such a way that—in a way that is not at least, in our judgment, inflationary. We think it is inflationary to simply talk about an across-the-board 10-percent tax cut. We think that is a very inflationary approach, and what the result is going to be is that inflation is going to go up and, in addition to inflation going up, unemployment is going to go up.

I suspect that our difference is not that, one, we ought to have a strong defense establishment. I believe in that very strongly. Personally, and I cannot remember talking to a mayor that does not agree with that, that we ought to have, as I said, I am not an expert and so I cannot tell you what that constitutes, but I am not sure it constitutes simply adding the kinds of dollars that we are talking about here and, in effect, taking those dollars out of desperately—really critically needed social programs.

ARE GOALS BEING MET BY DEFENSE SPENDING?

Senator **Gorton**. You moved from a relatively uncomfortable position for yourself to a somewhat more comfortable one, but you have not helped us very much. I am not a defense expert either, and I asked you that question simply because your testimony, in effect, implies that too much of our—of what we propose for the budget next year will go in the national defense. So I really have to come back, and it is not helpful to say I am not an expert in this area but you had better cut some of that spending. Everything proceeds from there. You know, a perceived—et cetera, a perceived need or goal.

I really come back to the question what is the goal of the national defense policy and, secondly, how do we determine whether we are doing reasonably well—just you as the citizens, you as a nonexpert and me as a nonexpert, how do we determine whether the amounts that we are spending for defense is meeting those qoals?

I would have to agree with you on this, I would love to have not voted on all these things that these people put up for us to vote in the last few days, and simply taking it out of national defense. In a sense, it would have been really easy except I get the uncomfortable feeling that we might not be around here to argue about these things if we did not do so.

Mr. Hatcher. First of all, I do not think we have to confine ourselves, as we look at the budget, to a discussion of defense increases.

Senator Gorton. Would you look into social security, for example?

FEAR OF REGRESSION

Mr. Hatcher. No. I would look into the question of accelerated oil allowances. I would look at that. I would look at—I am sorry, I would look at oil depletion allowances and I would look at accelerated depreciation allowances. I would take a hard look at a number of other tax loopholes that basically benefit people who are fairly well off already before I would—there is nothing wrong with benefiting people well off, but I do not think that that should be done at the expense of people who are not very well off. And it should not be done at the expense of cities which I must say, Senator, for all that has been done about the unworkability of many of the programs, in some instances I am sure you have supported yourself as well as the rest of the Congress, cities have begun in a struggling, groping way to turn themselves around. They have begun to come back the last several years. There is hardly a city in America, I think, that you can go to that there is not some kind of hope that things over the last several years have begun to get better, and that has been a large part, because of major initiatives taken by this Senate, by the House of Representatives, and by national administrations.

What I fear now with the proposed cuts is that we are going to see a—not only a halt to that progress that cities are making but, in fact, a regression. So that is my concern.

I am not necessarily talking about cutting the defense budget because that has never really been a part of the debate, at least in the last year or so.

Basically the debate has been by how much should the—that budget be increased and, again, I have confidence in our military establishment and I am not even sure if that figure of $60 billion over the next 2 years, if that is a reasonably accurate figure. I am not sure that the Defense Department can really spend that kind of money over the next 2 years. I think they are going to be hardput to be able to spend the kinds of funds that we are talking about within that framework and then, beyond that, as I said, I am just not certain that you are going to get what you want and what

I want and what everyone in this country wants, and that is a kind of military strength that will secure this country from attack by its adversaries. But it is significant to note, and I do not want to get into a protracted discussion in this area because I have already stated my shortcomings, but it is significant, I think, to note that in the last few years that most of the conflicts that have taken place in this world have been political and social conflicts as opposed to military conflicts. I am not sure that we are solving our problems by simply increasing, at least based upon the dollars spent, you know, our military establishments.

Senator **Gorton**. Thank you.

Senator Exon has some questions, and because I have a period commitment, he will manage it for awhile, and you can go ahead.

Senator **Exon** [presiding]. We are going to move along, gentlemen. I have some questions—no, please do not leave, Mr. Orr. I have some questions that I would like to ask you. We will be moving along rather rapidly.

Senator Dodd is here to testify and was scheduled at 11:15. Let me just try and tell you where I come from. It might help you in answering some of the questions.

As a former Governor for 8 years, and close association with mayors and county officials then, I really truly understand the difficult situation that you people are in.

QUESTIONING OF ADMINISTRATION'S SUGGESTIONS SEEMS UN-AMERICAN

In response to a comment that my friend from Washington made a moment ago, by pointing at me and saying all of those amendments that you people offered, I would just say for the record that Senator Gorton will find out when he looks at the record that this Senator has supported most of the President's initiatives up and down the line. My only concern has been that there seems to be a prevailing attitude that is somehow un-American if you question or dare question any of the suggestions made by the administration. Yet, in testimony before this committee, Mr. Stockman and others representing the administration, have clearly said that this package was put together in a very hasty manner. In fact, their testimony is replete with statements like we have only been in office 2 weeks or we have only been in office 3 weeks, and we worked from 6 o'clock in the morning until midnight to put this package together.

Therefore, I for one, while supporting the totals that the President wants to reduce, and generally supporting the cutting of the budget in various areas, have had grave concern, for we have not focused enough attention on some of the details and yet, when we go to the floor of the Senate, when you offer an amendment to make a minor change in any program, you are looked at as if you are a wild-eyed spender. I have never been a wild-eyed spender in my life, and my record clearly shows that.

For example, one of the things that we put up yesterday that I thought would pass with flying colors was merely to put $6 million back into the immunization program for preschoolers, which I think has been one of the most successful programs that the Federal Government has ever instituted. But it failed on the usual vote.

I therefore say, with that background, you can see how difficult it is going to be to make changes in programs.

AREAS THAT NEED HELP

Therefore, I would like, Mayor, to ask you and then Mr. Orr—I have not had a chance to read your testimony—as we go forward, could you give me the three areas affecting the cities in general, Mayor Hatcher, and the three areas that they are different in or that affect the counties that are your top priority? Unless you want to name one, two, three. Could you generally give us the three areas where you think we should be watchful, and I am saying this on the basis that while the block grant program is one that I share the enthusiasm for, one of the great difficulties that I think you are going to have as local officials is to live within the guidelines that have been established because I have a strong suspicion that the administration's projections are way off base, and inflation is going to be eating you alive as you attempt to carry out the programs down there on the local level.

I was frankly amazed when my former Governors came here, I think in February, and went home saying hallelujah, this is a great program. We can live with it without really knowing or understanding what the program was all about.

My statement at that time was that if we can live with this program, if it is so great, why do we not cut the programs in half? We can balance the budget in a hurry if that is what people want.

One of the real concerns in America today are the people who are afraid to stand up and say, wait a minute, maybe this is not the Utopia that we believe, and if public elected officials are worth their salt, it seems to me that whether it is a Democrat or Republican administration, they should have the intellect and the courage and should be willing to take the political risk, if necessary, to at least question.

With that background, in trying to understand how difficult a problem you have, could you state for the record, Mayor Hatcher, and then Mr. Orr, if you had to pick three, where do you think you might need any additional help if we can provide it?

Mr. HATCHER. That is difficult to do, but I would like to have a try on it.

JOBS ARE MAJOR CONCERN

The first area I think we have talked about a lot, and that affects us very directly, is just a question of jobs, employment, employment training. There are some assumptions inherent in these reductions that somehow the private sector is going to pick up people who really qualify structurally, unemployed persons who need training and other kinds of support if they are to be successful. So I would suggest that that is a very critical and important area to us.

Second, I am trying to skip through these very quickly, but, second, we find it difficult to understand the proposal to eliminate EDA, for example, the Economic Development Administration, to eliminate UDAG because, first of all, it would appear of all the programs that are currently in place, that those are most consistent with the professed philosophy of the new administration and the self-help and cities developing the capacity to solve many of their own problems. That is what those programs tended to do. UDAG, as you know, leveraged private investments; EDA made loans available to the private sector, and with the assistance of the public sector, we were able to generate more jobs in that area. So again that is another area where we are quite concerned, UDAG, EDA, both programs are beginning to have a telling effect on the deterioration, economic decline of many cities throughout this country, and then, third, it seems to me that we would be extremely concerned, if I can throw in two things: mass transit, which is the answer to many of the energy conservation problems for the cities, get people out of cars, and it makes it possible for—especially poor people with the price that you pay today for a gallon of gasoline, and it appears that that is going to go higher, not lower. It makes it possible for poorer, or at least working poor people or middle-income people to get to work, to get to the doctor, to get to the places that they have to get, so to cut back in that area does not make a lot of sense to us. And, of course, housing.

There is a tremendous problem still in terms of making available the promise that was made way back in 1949 by the National Government of a decent home for every family in this country. That obviously is a promise that still awaits fulfillment because we find, in many of our cities today, tremendous pressure on the housing market, forcing people to move in and live in substandard housing, many people who are with—would normally be eligible for some form of subsidized housing simply cannot get in because that housing is not available.

Now, we are looking at reductions in programs like section 8. There is an effort, as you know, currently to rescind some of the authority for fiscal 1981 in terms of that program, and then substantial cuts being suggested in the housing area for next year.

PEOPLE WANT OFF OF WELFARE

I would suggest, and maybe I have given you four instead of the three that you asked for, but I would suggest that those are areas that we are very concerned about, and when I talk about employment, obviously that includes the unemployment, the problem of unemployment support, the problem of food stamps, and the other programs designed to provide some real help and assistance to people who right now cannot help themselves. And I must just say in concluding my remarks, that I have been a mayor for 14 years now, Senator, and I think that our city has experienced every problem that any city in America could experience. And to be frank with you, many of my best friends are on welfare. I know people who are on welfare personally. I have been in their homes. I have talked to them. I have not seen, to be very honest with you, anyone who is on welfare that did not want to get off welfare, that did not want a job and did not want to have a better life than that which welfare provided, but their problem was that those jobs were not there. They were not available for them, or if there were jobs, they did not have the training to take those jobs and, as a result, they had to accept whatever assistance, if they were just to maintain some level of existence or subsistence.

Senator EXON. Thank you, Mayor.

Mr. Orr?

REVENUE SHARING IS FAVORED

Mr. Orr. Senator, this is a very difficult question. I have been sitting here, and I have had an opportunity, after listening to the mayor, to be able to reflect a little longer than he has. One of the reasons that our National Association of Counties is almost 100 percent for the President's program is because it depends on who you are talking to, what priorities are set and who sets them.

It reminds me of back home, where some folks say we ought to build roads based on priorities. Well, it depends on who is talking and whose house it runs by, you know.

I say that because it is very difficult. I have a speech that I have made around the country this year called, "Mandate Madness." I talk about who are the public service "junkies" and I used to say we are—ourselves, our neighbors and other elected officials and so forth. I guess if I could do anything—and I may be speaking for NACo and I may not, but I am certainly speaking for Roy Orr from Dallas County—if I could do anything, I would keep the Federal Government less out of my business. I feel I know more about what it takes to cure the ills on the French River in Dallas County, Tex., than somebody does on the Potomac River. This is why I am so much in favor of revenue sharing, for the simple reason that we could spend it in a way that serves the people in Dallas County, Tex.

As far as I am concerned, I am in favor of tax retention. Let us keep it—tax dollars—at home and spend it, and we will do a better job than when taxes are passed through, getting a nickel back out of every dollar and that sort of thing.

I am not necessarily chastising, but I am saying it the way I believe it and I think I have the courage to say what I believe.

TOO MUCH GOVERNMENT REGULATION

As far as some of the programs are concerned, the Federal Government is regulating our lives too much. Take the medicaid cap for instance. In Dallas County, we have a fairly famous hospital known as Parkland Memorial Hospital. How can I put a cap on that? I think that all of us are in favor of cheaper medical bills—I certainly am, and I think anybody who has any common judgment would be, also. But if I cannot control how much we pay the utility companies and so forth, I cannot put a cap on how much we can charge. We have about 14 counties that must do this, and about 14 States with county hospitals. And, as you know, some of our programs, such as payments in lieu of taxes, have been attacked. I know that coming from Nebraska, you are familiar with the program. For some of our Western States, where 75, 80, or 85 percent of the State is owned by the Federal Government, it is very difficult for them to rely completely on the ad valorem tax. It makes it very difficult.

We maintain at NACo that it is not a grant, but a form of taxes. President Reagan, less than 3 weeks ago, stated that it was a good neighbor policy. That is how we feel about payments in lieu of taxes. As a matter of fact, we have even said that the Federal courthouse should be seized when the Federal Government does not pay their taxes. That is what they would do to me if I did not pay mine. We again say that it is just a good neighbor policy—taxes, and not a grant.

I agree with several of the mayor's statements on economic development. We also have some definite problems in that area. I agree with his statement that if youth had more training, they would be more employable. I think that anyone who has training can get a job. I personally believe that, although in Gary it may be more difficult than where I live, Dallas County. I just read today's Dallas Times, and I am pretty certain that whether you have any expertise or not, you can find a job in Dallas County. It might not be the job you want, but if you are able bodied, you can find one. I think we ought to spend whatever money necessary to help people unable to help themselves, and, I want to emphasize "unable to help themselves."

REMOVE BURDENSOME MANDATES

I think that the greatest thing you can do for us as a Congress, is to get burdensome mandates and regulations, particularly those with cross cutting requirements, off our backs. I know the President has already appointed a task force, headed by Vice President Bush, on regulatory reform. If you are going to cut some of our programs, we ask that you reduce the mandates imposed on us.

For these reasons, we are supporting much of the President's program. I realize that the problems in Dallas County, Tex., are not the same as those in Gary, Ind., and this is the mistake that the Federal Government has made many times. They try to take the same pair of trousers, the same regulations and try to fit the whole country when that will not work. I am in favor of whatever approach it takes to be sure that nobody jumps on us, because we are going to jump back. Now, I do not know whether that answers your question, but I got something off my chest.

Senator EXON. Thank you, gentlemen. I really appreciate your comments.

ELIMINATE GRANTS WITH ADDITIONAL REVENUE SHARING

I guess, though, Mr. Orr, for the record, you are not saying that if we in the Federal Government would eliminate all of the rules, regulations, and redtape and get the Federal Government "off the back," to use your phrase, of county government, that we would be able to make a saving by eliminating local revenue sharing. You do not mean to imply that, do you?

Mr. ORR. No, sir. As a matter of fact, I am not advocating eliminating all regulations, I realize some rules and regulations are very important, and we must keep those. But others are ridiculous. We maintain that you could eliminate all grants to counties, if you would give us half that amount in additional revenue sharing, and we would do twice as much with that money. That is why Dallas County is currently building a $65 million jail. We went to the taxpayers, and they are paying for it. It does not have one nickel's worth of Federal or State money in it. We found that we could build the jail cheaper by not incorporating Federal and State regulations. We also do not have one nickel's worth of Federal money in our county road system. With the time that it takes to prepare an environmental impact statement, we found we could build more roads with our own money. Since the Federal Government is willing to match funding, we would like to build more roads. However, when it takes 15 years to finish a simple road project, something is wrong.

Senator **Exon**. Well, I certainly agree with you, and I think we generally agree with that theory. I would like to see some economic data to back up these statements that I hear all the time that we could do a better job with one-half the money, because if it can be done, I will tell you, we up here are for that.

Mr. **Orr**. The elected officials are, but the people who really run the Congress are not, and those are the bureaucrats.

Mr. **Exon**. Thank you.

Mr. **Hatcher**. Mr. Chairman, for the record, I do not want it to be implied that the cities or the mayors agree totally with everything that Mr. Orr said. We probably think that he is going to need that jail if all of these cuts take place.

Mr. **Exon**. I suspected that might be your attitude, Mayor.

Senator **Grassley** [presiding]. Gentlemen, on behalf of the majority and the minority, we want to thank you for your presentation. In thanking you, I want to say that you represent organizations that are well-respected here in Washington. We all have to work together in the next few months to achieve an orderly transition to State and local administration of programs that have been basically federally administered. Your help in this area has been solicited, and will be appreciated by all of us.

Thank you all very much.

Senator **Grassley**. The Chair now calls on Senator Dodd, who asked to appear before the committee to present his views regarding Federal housing programs.

I understand that Senator Durenberger will also be appearing with you, Senator Dodd. My records show that Senator Dodd is the first to appear and Senator Durenberger, the second. So who wants to proceed first?

Senator **Dodd**. I will let David go first, Mr. Chairman. We appreciate your courtesy.

STATEMENT OF HON. DAVID DURENBERGER, A U.S. SENATOR FROM THE STATE OF MINNESOTA

Senator **Durenberger**. Thank you very much, Chris, and thank you, Mr. Chairman.

I asked for this opportunity to speak briefly at your hearing this morning to share with you the results of a similar hearing that was held by the Intergovernmental Relations Subcommittee, which I chaired on February 25. I brought copies of the testimony that we received in February, and I am pleased with the opportunity to make them available to the members of the Budget Committee and its staff.

The subject of our hearing was the impact of President Reagan's budget proposals on the fiscal capacity and programmatic activity of State and local governments. We received testimony from the Director of the Congressional Budget Office; two Governors, Rich-

and Snelling of Vermont and Bruce Babbitt of Arizona; the Speaker of the Maryland House of Representatives, Ben Cardin; the mayor of Saint Paul, George Lattimer; and David Stockman, the Director of the Office of Management and Budget.

SIZE AND SIGNIFICANCE OF INTERGOVERNMENTAL FISCAL SYSTEM

The first point that should be recognized about the intergovernmental fiscal system is its size and its significance, both in terms of the Federal budget and in relation to the revenues generated at the State and local level.

In 1980, Federal grants-in-aid to State and local governments amounted to $91 billion, or 16 percent of total Federal outlays. This $91 billion represented 22 percent of all revenues received at the State and local level.

The dependence of individual States and cities on the Federal outlays varies widely, reaching 40 percent, in some cases.

While grants-in-aid accounted for 16 percent of all Federal outlays in 1980, they made up a much larger share of the budget reductions proposed by the President and reported by this committee. Approximately 30 percent of the budget reductions now recommended by the Senate will be taken from grant-in-aid programs for State and local governments.

LIMITS ON FLEXIBILITY

The second point I would ask you to consider is the restrictions and the limitations imposed on State and local governments that will deny Governors, mayors, legislators, and councilmen the flexibility necessary to respond quickly and effectively to the program changes which are reflected in our budget decision. These limits on flexibility have three sources. First are the tax and spending limitations that have recently been imposed on States and localities. Second are the mandates and cross-cutting requirements attached to Federal aid, and the third is the question of timing—the timing of implementing our decisions with all deliberate speed so that State and local governments can make the necessary adjustments within the fiscal and the institutional times which they face.

Although it is a common assumption that States are in good fiscal shape because they continue to show surpluses, this fiscal statistic is not really reflective of the situation in most State capitals. Much of the surplus is concentrated in a few States. Many Governors are now facing the need to make substantial reductions in service levels to meet constitutional requirements for a balanced budget.

In addition, and since 1977, there have been 36 State income tax reductions, 22 sales tax cuts, 9 indexed State income taxes, and 18 State tax and spending limitations imposed.

OFFICIALS HANDCUFFED BY FEDERAL PROGRAMS

Perhaps more troublesome than the self-imposed limitations are the handcuffs that Federal assistance programs place on State and local officials. The OMB has identified 59 cross-cutting requirements that apply to all recipients of Federal grants-in-aid. The cross-cutting requirements include Davis-Bacon, equal employment opportunity laws, environmental regulations, and a variety of reporting requirements.

In addition to these general rules, recent studies have identified more than 1,000 specific mandates in the Nation's grant laws. The scope and the force of these mandates are often the cause for court challenges of State and local decisions in spending Federal funds. In fact, there is a whole body of administrative case law that is taking out of our hands the decisions relative to the implementation of our policies.

And in a virtual explosion of these cases, the courts out there are narrowly defining the limits of local discretion. One can thus appreciate the situation that a Governor, mayor, or legislator faces as he or she contemplates the budget reduction. In a poor economy that is having a devastating impact on State and local fiscal capacity, bound all around by limits on spending and taxation, compelled to maintain effort and match declining Federal dollars, and challenged constantly in the courts, the elected officials charged with efficiently applying substantial Federal funds to meet important national goals, in my opinion, face an almost impossible task.

This is not to say that the reductions proposed by the President, reported by this committee, and now passed by the Senate, should not go forward. But as we implement the President's program, we must take care that our actions give the Governors, the mayors, and legislators as much scope for action and flexibility of response as we can.

BLOCK GRANT APPROACH OF GREAT ASSISTANCE

The block grant approach will be of great assistance, but we must move on the block grant swiftly. We must also reduce the mandates, cut back on reporting requirements, and give clear signals of our intent to forestall court challenges.

So I am pleased that this committee has taken the lead by recommending greater flexibility to the authorizing committees in the reconciliation report. I know of the commitment of your chairman to effective government at the State and local level. I know of the commitment of all three of you because of your backgrounds, and I know of the commitment particularly of the two of you on the Republican side, who share membership on the Finance Committee and who have been examining witnesses every week in that committee from State and local government, and I offer whatever assistance that I and the Subcommittee on Intergovernmental Relations can provide in making sure that our State and local officials can get more from the fewer Federal dollars that will be available.

Thank you very much.

Senator GRASSLEY. Thank you, Senator Durenberger.

Are there any questions of Senator Durenberger?

Senator EXON. No; I just wish to say, Mr. Chairman, that I appreciate very much the testimony of my colleague from Minnesota. I thought it was well-said. If we are going to impose these cutbacks on the Governors and the local entities of government, unless we give them the flexibility, as this committee is attempting to give the flexibility to the appropriating committees, I think the cutback is going to be very, very difficult to maintain in certain areas. I think flexibility is certainly a key.

Senator **Grassley**. Thank you.

Senator Symms?

Senator **Symms**. I appreciate your testimony, Senator, and I look forward to hearing from Senator Dodd. I think you bring up some very good points for us to try to work over.

Senator **Durenberger**. Thank you very much for the opportunity.

STATEMENT OF HON. CHRISTOPHER J. DODD, A U.S. SENATOR FROM THE STATE OF CONNECTICUT

Senator **Grassley**. The Chair recognizes Senator Dodd.

Senator **Dodd**. Thank you, Mr. Chairman. It is a pleasure to appear before you this morning, particularly appearing before two former colleagues in the House.

I have a dual task here, Mr. Chairman. First of all, Senator Harrison Williams has requested that a statement of his be submitted for the record, and I would ask permission to make his statement a permanent part of your record.[1]

Senator **Grassley**. Without objection, so ordered.

Senator **Dodd**. Second, Mr. Chairman, I am here this morning in my capacity as a member of the Banking, Housing, and Urban Affairs Committee and would like to ask that my statement be incorporated in the record. I will just try and paraphrase some of the points that I would like to raise this morning and then I will be glad to try and respond to any questions that this committee may have.

HOUSING INDUSTRY'S DIRGE

Mr. Chairman, the double-digit interest rates, construction industry unemployment, and decreased housing starts are the opening notes of what could become the housing industry's dirge. I say "could," because I firmly believe that the problems we face today can be effectively addressed through creative and innovative policies in the housing area.

As a new member of the Senate Committee on Banking, Housing, and Urban Affairs, I am committed to pursuing housing policies which recognize the realities and restrictions we face, so that with the cooperation of the private sector, we can move forward in support of the longstanding national goal of decent home and a suitable living environment for every American family.

The challenges before us threaten to reach crisis proportions. Despite substantial progress in expanding the supply and quality of housing, the demands of the 1970's have not been met, and the needs of the 1980's loom ahead. Rather than stand motionless, awed by the task, we must immediately focus on those factors working against the housing industry. Factors that become insurmountable obstacles for the families that want homes.

A young couple, for example, looking for their first home will find prices around the United States averaging in the neighborhood of $80,000 to $85,000. On the west coast and in other areas, those figures go far beyond that. If they happened to find something last month, they would face mortgage rates that hovered around 15⅓ percent, according to the Federal Home Loan Bank Board. And if they happened to instead meet eligibility requirements for Government-assisted housing, they would find the low-income housing supply does not have room for them.

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[1] See p. 107.

HOUSING STARTS ARE OFF

So addressing these problems will not be easy, Mr. Chairman. Housing, more than any other sector of our economy, has carried the weight of our Nation's economic woes. Reports show that we fell, on the average, approximately 800,000 units short each year of meeting the housing goals of the 1970's. Starts for 1980 reached 1.2 million units, and data for February of this year shows a monthly decline of 25 percent. The seasonally adjusted rate fell to 1.2 million units, far from the annual goal of 2.5 million units the Conference on Economic Progress and other industry sources tell us were needed during the past decade and will be needed during the beginning of the 1980's. The gap—every unit of lost production—represents 2 years of employment lost by someone in construction and related industries.

Certainly, the demand for new homes is there. As much as construction workers want to build, American families want to buy homes. Now, they cannot. Not when restrictive monetary policies make housing credit expensive and scarce. Not when legislation deregulating financial institutions is implemented inconsistently. And not when the current administration announces it is going to potentially limit credit available through the Federal Housing Administration.

DEVELOP MONETARY POLICIES

I have a couple of suggestions I would make, Mr. Chairman, and two that I would like to focus on. I would hope that we will be able to develop some monetary policies and closely monitor those policies, to insure a flexible response to the credit needs of the housing sector.

Second, the actions of the Depository Institutions Deregulation Committee should be directed toward a more gradual and predictable transition to a deregulated industry so that thrift institutions can attract funds for mortgage financing. I supported the deregulation of banking. I think that is a goal that all of us embrace. It is a question of how we do it so that it is accomplished in a consistent and thoughtful way, This is something that we hear from at least in the State of Connecticut from the lending institutions. They support it, but they would like to see it move more gradually.

Third—and this point, I would like to ask the committee's support on—the credit ceilings on FHA mortgage insurance should not result, I believe, in the necessity to abandon the historic demand nature of such assistance in favor of an uncertain system of credit allocation.

CREDIT CEILINGS

Briefly, as you may recall, President Carter recommended that there be a credit ceiling of somewhere in the neighborhood of $44 billion. Under the present administration's proposal, it is for $35 billion. That figure may be all right, because we have always had the ceiling higher than what the actual demand would be, because we did not want it to turn into an allocation program. It actually returns money to the Federal Treasury, so that we do not want to run into an arbitrarily low ceiling, which could result in having to get into an allocation program, rather than relying on the demand program that it has operated under since its inception.

That was really the one point that I wanted to request of this committee.

Next, we find that State and local initiatives in support of housing, represented by the increased use of mortgage revenue bonds, should continue. And if recent limitations imposed on this financing mechanism prove unworkable, proposals to ease unnecessary restrictions while insuring appropriate targeting of bond proceeds should be considered.

RATIONAL ACCELERATED DEPRECIATION SCHEDULES NEEDED

We need rational accelerated depreciation schedules. Again, I supported the concept of 10-5-3. We are all aware of the problem with condominium conversions. And one of the problems we face with that depreciation schedule is that maybe we ought to look at a way—and I realize this committee is not necessarily the one to address this point specifically to, except when you are considering the revenue issues—of trying to induce some private capital into rental construction. I do not necessarily believe that just having moratoriums on condominium conversions in the long run are going to satisfy the problem. You may use that as a bandaid approach where you have got a particular problem for a short period of time. In the long run, it is going to be the question of whether or not we can attract private capital into the rental construction area. Working with the accelerated depreciation schedules, to try and lure some capital into the rental construction areas might be worthwhile.

Further, given the rapidly increasing costs and equity consideration with section 8 new construction program, the Congress should pursue improvements which would ease the long-term financing commitments under this program. It may be appropriate to consider alternative financing schemes and reductions in program regulations affecting sponsors and financing entities to insure a more effective use of Federal resources.

And finally, efforts to expand housing supply for older and needy Americans must be pursued in concert with actions to avoid displacement and preserve the existing housing inventory on which they now depend.

ASSISTED HOUSING PROGRAMS

This last point—and I know that my good friend here, Senator Exon, has been interested in the assisted housing programs—as I am sure you are both aware, we have reduced in the present budget by some $10 billion moneys available in the assisted housing program areas. I am a realist. I recognize that is where we are. I think the general feeling—and there is a letter from the Banking

Committee to this effect—is that we try not to go any deeper than that with this level.

That one figure alone represents 17 percent of the total budget cuts suggested by this administration, and while I may have personal views myself of wishing it were not quite that deep, I think I am speaking on behalf of our committee, both Republicans and Democrats on both sides, that we try and hold it at that figure and not go much deeper, because we do run into some real serious problems in the assisted housing program areas.

Those are basically the two messages. The one on the FHA credit ceilings and the assisted housing programs are the two points particularly that I wanted to raise to this committee.

Again, I appreciate the opportunity to have a few minutes to present my views and the statement of Senator Williams.

Senator SYMMS [presiding]. Thank you very much, Senator.

[Statement of Senator Dodd follows:]

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available

Statement
of
Senator Christopher J. Dodd
Before
U.S. Senate Committee on Budget
April 3, 1981

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear before the Committee this afternoon to discuss the dimensions of the housing problems confronting the nation and to suggest the framework of a comprehensive response to these conditions.

Double-digit interest rates, construction industry unemployment, and decreased housing starts are the opening notes of what could become the housing industry's dirge. I say 'COULD' because I firmly believe that the problems we face today can be effectively addressed through creative and innovative policies.

As a new member of the Senate Committee on Banking, Housing and Urban Affairs, I am committed to pursuing housing policies which recognize the realities and restrictions we face, so that with the cooperation of the private sector, we can move forward, in support of the long-standing national goal of decent home and a suitable living environment for every American family.

The challenges before us threaten to reach crisis proportions. Despite substantial progress in expanding the supply and quality of housing, the demands of the 1970s have not been met and the needs of the 1980s loom ahead. Rather than stand motionless, awed by the task, we must immediately focus on those factors working against the housing industry. Factors that become insurmountable obstacles for the families that want homes.

A young couple -- like many American families -- looking for their first home will find prices averaging around $80,000. If they happened to find something last month, they'd face mortage rates that hovered around 15.34 percent, according to the Federal Home Loan Bank Board. And, if they happened to instead meet eligibility requirements for government assisted housing, they'd find the low income housing supply doesn't have room for them.

Addressing these problems won't be easy. Housing more than any other sector of our economy, has carried the weight of our nation's economic woes. Reports show that we fell -- on average -- approximately 800,000 units short each year of meeting the housing goals of the 1970s. Nineteen eighty starts reached 1.292 million units, and data for February of this year shows a monthly decline of 25 percent. The seasonally adjusted rate falls to 1.2 million units -- far from the annual goal of 2.5 million units the conference on economic progress and other industry sources tell us were needed during the past decade and will be needed during the beginning of the 1980s. The gap -- every unit of lost production -- represents two years of employment lost by someone in construction and related industries.

Certainly, the demand for new homes is there. As much as construction workers want to build, American families want to buy homes. Now, they can't. Not when restrictive monetary policies make housing credit expensive and scarce. Not when legislation deregulating financial institutions is implemented inconsistently. And, not when the current Administration announces it's going to potentially limit credit available through the Federal Housing Administration.

Amidst these problems with single family homes, we must remember that the federal government remains an important source of housing assistance for low and moderate income households. But past promises will be difficult to keep considering the Administration's revised budget. The President has proposed a 120,000 unit reduction over the next two years with budget authority for the coming fiscal year subject to a 33 percent cutback. This is the largest single reduction on any program in the revised budget -- a full 17 percent of the recommended budget savings.

Given the current national mood, a significant increase in government spending is not an alternative we can today consider. Nor should it be the only alternative. The lessons of the past have taught us that money alone will not solve our problems. Available resources applied to creative and innovative policy can help us get the job done. I would offer the following for your consideration.

-- Monetary policies must be closely monitored to insure a flexible response to the credit needs of the housing sector as the economy improves.

-- The actions of the Depository Institutions Deregulation Committee should be directed toward a more gradual and predictable transition to a de-regulated industry so that thrift institutions can attract funds for mortgage financing. I favored de-regulation of the banking industry as a necessary and desirable step, and I continue to support the increasing availability and acceptance of alternative mortgage instruments and expanded incentives for saving.

-- Credit ceilings on FHA mortgage insurance should not result in the necessity to abandon the historic demand nature of such assistance in favor of an uncertain system of credit allocation.

-- State and local initiatives in support of housing, represented by the increased use of mortgage revenue bonds, should continue. If recent limitations imposed on this financing mechanism prove unworkable, , proposals to ease unnecessary restrictions while ensuring appropriate targeting of bond proceeds, should be considered.

-- Rational accelerated depreciation schedules, like those advanced during the last Congress by the Senate Finance Committee, could provide incentives for developers to enter the rental housing market. I am concerned that the President's tax initiatives in this area will put rental housing in a less advantageous position relative to other capital expenditures.

-- Given the rapidly increasing costs and equity consideration with the Section 8 new construction program, the Congress must persue improvements which would ease the long-term financing commitments under this program. It may be appropriate to consider alternative financing schemes and reductions in program regulations affecting sponsors and financing entities to insure a more effective use of federal resources and greater inducements for private sector participation.

-- Finally, efforts to expand the housing supply for older and needy Americans must be pursued in concert with actions to avoid displacement and preserve the existing housing inventory on which they now depend.

I know the members of this Committee are sensitive to these issues I have outlined. I pledge my cooperation to this Committee so that the housing requirements of the American people receive the attention they deserve as one of the most basic and vital human needs.

Senator **Symms**. We are delighted to have you here before the committee.

INSURE MORE EFFECTIVE USE OF FEDERAL RESOURCES

I was just going to ask you on one minor point, and I think Senator Exon may have some questions. But you say:

> It may be appropriate to consider alternative financing schemes and reductions to program regulations affecting sponsors and financing entities to insure more effective use of Federal resources.

Could you elaborate just a little bit on that?

Senator **Dodd**. Surely. You know, there have been some that have been kicked around, and they are not original ideas. Some have suggested, for instance, that maybe we ought to, instead of subsidizing rents, consider reducing initial development costs as a way of trying to reduce the long-term commitment. We are going to be long gone when the bill comes due on this program, and it is going to be a sizable hunk of change. That is just one suggestion. I think we have an obligation to try and see to it, for instance, in that program that the elderly get adequate housing. I do not think anyone argues with that point. The question is, in doing that, how can we effectively accomplish that goal and yet at the same time not, as I say, leave a large bill that will come due years down the road, whatever the term of the mortgage agreement may be.

Senator **Symms**. Thank you very much.

Senator Exon?

Senator **Exon**. Thank you, Mr. Chairman.

Senator Dodd, thank you very much for your excellent testimony.

SAVINGS AND LOAN ASSOCIATIONS FACING DESPERATE SITUATION

I have a comment or two, and then a question. One of the things that I do not believe has been touched on here yet this morning with regard to housing is what I see as a rather desperate situation that our building and loan associations are facing now. In fact, there are some rather dire predictions on the immediate horizon with regard to this, and as you are familiar, I am sure, there are various measures being introduced on both sides of the Hill. I guess I am quite concerned about this, because if we have any substantial number of our savings and loan associations unable to continue, not only is that bad for the economy, but I am very much worried about even the larger effect on housing in general, from the standpoint that the savings and loan associations get into financial difficulty. I am sure that that could have a very deteriorating effect on sales in general, and certainly could have a serious effect on the equity that Americans have in their homes. And I think it is safe to say that most Americans have most of their equity, if they have any, tied up in their homes.

Is your committee taking any initiative in this particular area?

MONEY MARKET FUNDS POSE SERIOUS PROBLEMS

Senator **Dodd**. We are. Senator Garn is going to be holding a couple of days of hearings during April, on the money market question. Frankly, that is the one that has everyone concerned, and it is not an easy question. An awful lot of people have been able to insulate themselves against the present rate of inflation by—and these are not necessarily large investors—being able to go to the money market funds and get a very good return, a return in some cases in excess of the rate of inflation. So they have been able to protect themselves.

What has occurred, of course, is that there has been an incredible drain of capital into the money market funds. Literally, we are watching a $6 million beginning point generate into literally billions within a period of months. So it poses some real serious problems.

I do not know the answer to it, let me tell you that. Let me tell you philosophically how I approach it. I would be reluctant to see us get back into this game of trying to overly regulate the money markets in order to try and attract capital to the thrift industry and get back into that game again, where we are regulating one and not the other. We get caught up in that sort of a ferris wheel sort of mentality.

ATTRACT INVESTORS IN THRIFT INDUSTRY

I think the idea ought to be to try and make it as attractive as possible for people to invest capital in the thrift industry. That ought to be the major thrust. Now, how do we go about doing that? I am attracted to the idea of some sort of limitation on the reserve account, but I am a little worried about what that may do, as I say, to the smaller investors. So I am going to be attending those hearings and listening carefully. It is a real serious problem.

In Connecticut alone, we are really feeling it, even more immediately than you may be in the Midwest and the Western States. In the East, you are having mergers going on all the time, and, literally, in most of the States in the East, they are operating in the red right now.

I had, in fact, yesterday, a group down from my home State of Connecticut, and I know these fellows well, and they do not cry "wolf." They told me that literally, there may be just weeks left for some of the smaller banks to continue in operation, and beyond that, even some of the larger ones may be in serious, serious trouble because of the absence of capital.

So I wish I had an answer for you, but I can tell you where I am beginning to look at it. In the Banking Committee, Senator Garn, I know, is deeply interested in it, and I think we have got to move quickly. Frankly, I think if we are going to do something, we ought to move pretty expeditiously.

Senator Exon. I would certainly agree. I think maybe if there is a crash program that is demanded right now, it is for us to at least try to do something in this area to avert what could be a serious blow to the overall recovery program as outlined by the administration, that I think we are all backing.

Senator Dodd. Go to the mortgage rates, and I do not care what the mortgage rates are or what the housing prices are, if there is no money in the thrift industry, you are in trouble. You have got to do that first.

IS THERE A BETTER WAY OF USING MONEY THAN SECTION 8?

Senator EXON. One comment that I would like to make on the assisted housing program that you are for, and that I have generally supported and will continue to support, I guess I have not been enthused about the section 8 housing program. I know it has done some good things in some areas, including some areas of my State of Nebraska. The problem that I see with the section 8 housing program, as opposed to the 235 program and the other programs that encourage people to buy and create an investment in the home of their choice, is that section 8 is one of these social programs that by its very nature encourages people to become saddled with Government subsidy for the place in which they live. And there is no way out. They never create any net worth. They never have a chance of insulating themselves against the inflationary bulge, as people have generally been successful in doing by owning property. I do not think we need to wipe out the section 8 housing program, but I am not sure that section 8, the way it has been handled, has contributed as much, nor will it contribute in the long term to what many of us see as good housing or adequate housing for our people.

If we did not build another single section 8 housing unit, starting like yesterday, we still are on line for about $150 billion, conservatively speaking, that the Government is obligated for in payouts in the next 25 to 30 years.

So it is one of those programs that we get going and think it is quite good. It should not be wiped out, but I really believe that your committee should be saying, "How might we better use the money than in section 8?"

SECTION 8 ASSET TO ELDERLY

Senator DODD. Well, I think we are going to be doing that, as I mentioned in my own remarks. One area where I think section 8 has been a real asset is in elderly housing. I do not know what the situation is in your respective two States. In Connecticut, we have some wonderful housing that has been constructed for the elderly under that program. To that extent, it has been able to provide a living condition for people where our housing stock is so old in New England and the Northeast, going back literally 100 years and more. Some of these buildings were built when they had coalbins in most of the basements of these places, they are not well-insulated, and they are extremely expensive to live in. So the newer housing opportunity created by section 8, particularly for the elderly, has really been an asset. The problem with it is what you identify, and that is, of course, the pricetag on the program in the long pull.

I mentioned to Senator Symms one option. There is another that has been kicking around that would have to do with recognizing that bill that you just talked about, and you may be low on your figure. In coming to terms with that, I cannot imagine how we would get this through presently, given the environment, but to recognize what the long-term costs are going to be and come up with some funds immediately to get us off that potential problem. And the estimates are that we might actually cut that bill in half by buying out, in effect, on these mortgages. Now, as I say, it would be an enormous hunk of change to come up with initially, but in the long run, it might be one-third or one-half of what the ultimate costs might be to taxpayers in this country.

As I say, I am not sure that you could convince people today that this would be the wisest way to go. Frankly, I think it is one that we ought to explore.

Senator **Exon**. Thank you.

Senator **Symms**. Thank you very much, Senator. We appreciate your being here.

Senator **Symms**. We now have our colleague from Arizona, Senator DeConcini, waiting to testify.

Welcome to the committee this morning.

STATEMENT OF HON. DENNIS DeCONCINI, A U.S. SENATOR FROM THE STATE OF ARIZONA

Senator **DeConcini**. Chairman Symms, thank you, sir.

I do not know what the time schedule is here. I have a statement I would like to at least start with, if I may, and if time and appointments intervene, I will submit it for the record, at your judgment.

Senator **Symms**. Please go ahead and proceed.

Senator **DeConcini**. Thank you, Chairman Symms and Senator Exon, and other members of the committee, when they read the record.

I want to thank you for providing me with this opportunity to appear before the Senate Budget Committee as you continue to review and develop your revenue and spending assumptions for the first budget resolution for fiscal year 1982.

As you know, most of the time when outside witnesses appear before this committee or the Senate Appropriations Committee, of which I am a member, 99 times out of 100, they ask for more money, more spending, rather than less. I am pleased to say that I am appearing before you this afternoon to recommend several general Government activities where I believe substantial cuts in savings can be achieved in fiscal year 1982. The recommendations that I will discuss today are not new, nor will they come as any surprise to the Chairman or members of this committee who, just 2 days ago, beat back my amendment to the reconciliation resolution which called for the same savings next year.

EXPENDITURE REDUCTIONS AND SAVINGS RECOMMENDED

I am recommending to this committee that they incorporate into their spending assumptions for fiscal year 1982 the following expenditure reductions and savings: $750 million in nondefense travel and transportation; $1 billion in consultant services; $250 million in Federal public relations, public affairs, public information, and advertising; $150 million in Federal audiovisual and filmmaking activities; and $1.75 billion in Federal debt collection.

These reductions would save a total of $3.9 billion in budget authority next year and, according to the Congressional Budget Office, $1.7 billion in outlays. These are the same savings that are contained in S. 421, the General Government Expenditure Control and Efficiencies Act of 1981, which I introduced on February 5, which is currently pending before the Senate Governmental Affairs Committee

At a time when less and less of the Federal budget is subject to discretionary action by the Congress, these are not insignificant savings.

Let me take the next few minutes to explain why I believe that these specific targeted savings in specific categories of Government activity are both necessary and achievable.

CUT NONDEFENSE TRAVEL EXPENSES

Let us talk about travel, $750 million. I would recommend that the committee incorporate into its budget assumptions for next year savings of this amount in nondefense travel.

Although it is still not clear what the total Federal travel and transportation budget proposed by President Reagan will be in 1982, the Carter travel and transportation of persons and things for next year totaled approximately $12.6 billion. Under the Carter budget, defense-related travel and transportation of things and people would total about $7 billion, leaving about $5.6 billion in civilian agency travel that would be subject to my proposed reduction of $750 million, or about 13 percent, in nondefense travel and transportation next year.

Let us take a quick look at what various reports and studies say about Federal travel. The Office of Management and Budget-General Services Administration report on Federal travel issued earlier this year concluded that 26.8 percent of the reasons given by agencies to OMB for travel were "unknown." A review of specific travel vouchers at the Department of Agriculture showed that over 72 percent of the purposes of travel were "unknown"; at the Department of the Treasury, 83.6 percent of the trips were for unknown purposes; at HUD, a staggering 87.4 percent of the trips were for unknown purposes.

LARGE PERCENTAGE OF TRAVEL BUDGET LABELED "UNKNOWN"

This same report revealed that more than 25 percent of the Federal travel budget goes for information meetings, training attendance, speeches, presentations, and conference attendance by Federal bureaucrats. That makes over 51 percent of the Federal travel budget going for these low-priority activities or for purposes that are "unknown."

A General Accounting Office report issued last December indicated that OMB had largely ignored GAO's recommendations for improving the management of Federal travel and gave a number of examples of wasteful travel practices at Federal agencies. For example, Agriculture's Forest Service has increased, by more than 50 percent, the number of external national conferences its employees can attend. Even though OMB and Forest Service policies suggest that attendance be held to a single individual, 76 Forest Service bureaucrats attended a conference sponsored by the Association of Governmental Accountants; 111 attended a Forest Products Research Society meeting. This list goes on here, Mr. Chairman, and I will not read them all.

The level of savings that I am proposing would constitute about a 13-percent reduction in nondefense travel.

On debt collection, as Senator Sasser indicated on the floor of the Senate 2 days ago——

Senator SYMMS. Excuse me just a second, Senator. Senator Exon has an appointment, and he wanted to make a comment, if you could just hold up a minute.

Senator EXON. Could I interrupt you just a minute?

Senator DECONCINI. Indeed you could, Senator.

Senator EXON. Thank you, Senator, for coming here this morning. As you know, I am in support of your proposal, and I will continue to support it. I think it is well directed.

I have a question or two. Would the reduction in travel that you are suggesting include the travel of U.S. Senators, and a reduction in their travel allowance?

Senator DECONCINI. No; this is only in the executive branch, Senator Exon.

EXPAND TRAVEL CUTS TO INCLUDE CONGRESS

Senator EXON. May I suggest that that might be expanded to include a reduction in the travel of U.S. Senator. I happen to feel that the travel allowance that we and Members of the House of Representatives have is more than adequate, and I think it might lend a position of sincerity to the proposal if we could say, yes, we could cut back too.

One other point I wanted to make. I am a member of the Armed Services Committee and am strong for national defense, and I know that is shared by Senator DeConcini and by Senator Symms, and I think all the members of this committee. I guess that I am concerned when I hear that every time we come up with a proposal like this, we say "except defense." You know, we must not do anything with defense.

I suggest that there is probably some horror of horrors travel in the Defense Department that could be cut back. Do I understand your proposal that you would exclude the Department of Defense from any cutback in travel?

Senator DECONCINI. Senator Exon, you raise a very good point and something that I have not ignored. I have talked particularly to the Air Force on this subject matter, and they are willing to take a reduction, I believe—that is the indication I get from the military—in the administrative travel. They are concerned.

And the reason my amendment is drawn to exclude the defense-related is because in past reductions that have been enacted—there was one last year—it did in fact curtail the ability of a number of training flights by the Air Force; they just did not have the money because the TDY expenses for the personnel to fly to Germany or to Turkey is part of travel, even though the actual cost of flying the plane or using the equipment is absorbed someplace else. So they were concerned about it.

I thought that was a valid approach.

Senator EXON. I think that is right.

Senator DECONCINI. And I think if we looked at the administrative travel in the Department of Defense—and we have not looked at it—I daresay that the Senator is probably correct that there could be a rejection there of maybe 13 percent without taking away any military necessary travel.

Senator EXON. Thank you, Senator DeConcini. I am sorry I have to leave.

Senator DECONCINI. I understand.

Senator SYMMS. Thank you very much, Senator Exon.

Senator DECONCINI. Chairman Symms, to go back to the debt collection, it would take, literally, hours to go over the dozens of reports and studies that have examined this multi-billion-dollar problem.

TURN DEBT COLLECTING OVER TO PRIVATE AGENCIES

Senator SYMMS. Could I ask a question right there? In my opinion, and I have made this point previously, it seems to me like we ought to just turn these over to private debt collection agencies, and instantly, the next crop of recipients would know they were going to have to pay the bill.

Senator DECONCINI. Mr. Chairman, I agree with you, and there is legislation now pending before the Governmental Affairs Committee, and I am a cosponsor of that. I would rather pay a commission and collect some of this.

Senator SYMMS. My contention has always been if we would just turn it over to private debt collection agencies, then once everybody knows they are going to have to pay it, that after 1 year, everybody would be paying it, and everybody who is delinquent, turn it over to a debt collection agency.

Senator DECONCINI. This does not trouble me in the least bit. The point, I think, is that we have really been lax, in, the executive and obviously in the oversight area, in not demanding a tighter collection policy.

Senator SYMMS. We are really doing a disservice to the people that we do not require to pay back the debt, as well as to the taxpayers.

Senator DECONCINI. Exactly, exactly. As I am sure you agree, people borrow money, and when they borrow it, they intend to pay it back. And when there is no enforcement or very lax enforcement, obviously, you think it is a free lunch.

BILLIONS COULD BE SAVED BY IMPROVED DEBT COLLECTING

Just to go over briefly, of the $6.3 billion, an estimated $3.9 billion constitutes uncollectable student loans, benefit overpayments, and other similar obligations due the Government, with the balance consisting of delinquent income taxes that the Internal Revenue Service has deemed uncollectable. Most recently, the Congressional Budget Office has indicated in its report entitled "Reducing the Federal Budget: Strategies and Examples, Fiscal Years 1982–1986," that a net savings of $1.6 billion could be achieved in fiscal year 1982 through improved debt collection efforts by the executive branch, and that cumulative savings of $8.4 billion over the next 5 years may be conservative.

Well, Mr. Chairman, my recommended savings of $1.75 billion is an ambitious yet achievable goal, in my opinion.

Audiovisual and filmmaking is an interesting area, Mr. Chairman, and I would love to leave for the record later some specific examples of some of the film.

[The following was subsequently supplied for the record:]

SENATE BILL 421 AND THE PRESIDENT'S CALL FOR SAVINGS IN FILMMAKING AND PUBLICATIONS

Mr. DECONCINI. Mr. President, I was pleased and encouraged to read over the weekend that President Reagan intends to issue an Executive order this week requiring Federal agencies to cut back on publications and films and not publish or issue any new publications or films without OMB approval. This activity is exactly the type of low priority, nonessential Government spending that can, and should be, reduced and reduced sharply both this year and in years to come.

Mr. President, I am particularly pleased to find the President zeroing in on these areas of waste in Government only a little over 1 month after I introduced S. 421, the General Government Expenditure Control and Efficiencies Act of 1981, which called for general Government savings totaling $3.9 billion next year, including $250 million in audiovisual activities, filmmaking, production, and $150 million in public affairs, public information, and advertising.

As I mentioned in my floor statement of February 5, the Federal Government, according to the National Audiovisual Center within the General Services Administration (GSA) spends approximately $450 to $500 million a year on audiovisual activities, including over $53 million on motion picture, TV, and video tape and audio production activities. The Department of Defense alone spends well over $410 million a year on audiovisual production, duplication, equipment, and supplies.

The National Audiovisual Center at GSA also reports in its fiscal 1979 report on audiovisual activities that the Federal Government owned or leased 1,519 audiovisual facilities, totaling 8.9 million square feet of space in fiscal year 1979. The Department of Agriculture alone owned or leased 62 such facilities; the Veterans Administration, 181 facilities; and the Department of Defense, 1,074 audiovisual facilities. In fiscal year 1979, 11 departments and 23 agencies owned or leased their own facilities. Since 1978, the Office of Management and Budget has been attempting to force agencies to consolidate or even eliminate audiovisual facilities that may be underutilized or nonessential to the Government's missions. However, it does not appear that OMB's directives as outlined in Circular A-114 have had much effect to date. Again, I am pleased to see that OMB intends to try again.

Mr. President, as I mentioned on the Senate floor last month, many of these Government-sponsored productions are useful, but in a year when we need to cut back nonessential Government activities, these audiovisual and filmmaking activities are prime candidates for the budget ax. After reviewing some of the films that have been produced at taxpayer's expense, my first impression is why has it taken the administration so long to discover this pocket of waste in Government? Here are a few examples of films and productions that have been produced over the past several years by Uncle Sam:

Tent Flaps and Flapjacks: Portrays the recreational opportunities in the national forests in the north-central states.

Squirrel Cage Rotor Principles: Describes the laws of magnetism and induced electromotive force, explains how in squirrel-cage rotors electrons flow up magnetic poles.

Silver Fox Rodeo: Shows the Navy Attack squadron at work and play. Also shows enlisted personnel and officers flying over the Sierras, riding broncos and wild burros, and milking wild cows.

Sign of Profit: Depicts the dreams of a farmer and his wife; explains how these dreams for bettering farming are not so far off if the farmer has the incentive to work for them.

Blondes Prefer Gentlemen: Shows proper and improper etiquette on a dinner date.

26 audiocassettes on teaching Swahili.

Conducted Tours: Shows some of the things that commonly go wrong with conducted tours.

Faces of Freedom: A story about our hostages in Iran? No way. This film traces the history and purpose of the National Portrait Gallery since its founding.

The Autobiography of a Jeep: Gives a look at the most all American of vehicles, the jeep. Celebrates our national love affair with the automobile, transferred here to a remarkable little machine which would become a symbol of America's presence throughout the world.

[illegible]—A Way to Better Letter Writing: Compares two kinds of letter writing—one simple, easy to read and to the point; the other wordy, pedantic and complicated; suggests how agencies should correspond with the public in a simple style to say what needs to be said.

Like the Overhead Projector Because: Designed to offer ideas to teachers on how to use the overhead projector.

Hidden Beauty: Shows that a profitable junkyard business need not be an eyesore to highway users.

These are just a sampling of the hundreds of films produced over the years on topics ranging from art to zoology. To make matters worse, there is little indication that the number of those who actually use these films or the effect of the message communicated justifies the cost. The President has apparently received the same message that we received several months ago when we were looking for and discovering many general Government savings that could be immediately cranked into next year's budget plan.

The President has also apparently decided to cut back on the number of Federal publications that are churned out by Federal agencies by the ton, many of which are merely self-promoting booklets used to justify their programs or even their very existence. Many of these publications come under the category of "public relations, public affairs, or public information" proving without a doubt that Government is big, big business. S. 421 calls for reducing Federal spending for public affairs, public information, and public relations by $120,000,000 plus another $30,000,000 in advertising expenses.

As I said to my colleagues on Feburary 5, I have no problem with the private sector using its capital for such activities—after all, businesses are in business to make money, promote their products, and sell their services. But I do not believe that Uncle Sam should be in the business of promoting Federal agencies or their programs at the taxpayer's expense.

It has been estimated that the cost of Government public relations, self-promotion, and other public information activities could be as high as $1.5 billion a year, including $400,000,000 for public relations, public affairs, and personnel that run these so-called "PR" programs for the Government agencies. Certainly not all of this amount is directly spent on publications, but one need only take a look in any Senator's "in" box for any given day to see glossy paper booklets, promoting everything from housing programs overseas to full-colored brochures on the benefits of the space program.

Many of these publications serve a useful purpose in informing the public about ways the Federal Government can be of assistance to the needy, the aged, or the unemployed. But a cutback of the magnitude suggested in my legislation, I believe, would go a long way toward distinguishing those publications that are helpful from those which merely serve to pat Federal agencies on the back.

Mr. President, again I am pleased to see that the administration is prepared to take an active role in rolling back spending in these two important areas of filmmaking and publications. I believe that the savings in these two activities that I spelled out in S. 421 45 days ago are achievable. I would welcome the support of the President and my colleagues for S. 421 and the savings objectives it is intended to achieve in the comining fiscal year.

Senator DeConcini. This is an area of potential savings that the President has just recently identified as a good candidate for substantial reduction, and I applaud the administration for announcing his "War on Waste" just a week ago and zeroing in on this matter.

Perhaps the most comprehensive study of Federal audiovisual activities was done under contract by the Office of Telecommunications Policy and National Telecommunications and Information Administration in April 1978. According to GSA's National Audiovisual Center, their findings are still applicable today.

MILLIONS SPENT ANNUALLY ON AUDIOVISUAL ACTIVITIES

Here is what the report says, in brief. Federal agencies spend an estimated $500 million a year on all aspects of audiovisual activity and could be as high as $632.3 million annually. The report gives as an example of wasteful audiovisual activities the case of the military's chaplain services spending $1.963 million over 3 years on motion pictures. In another case, an agency spent $125,000 on a motion picture, but lost track of where the film went or whether anyone saw it.

Another agency planned to spend $4.5 million on audiovisual equipment for a one-shot training effort. The proposal included plans for a $100,000 television studio and purchase of 22,200 tape recorders and projectors at a cost of $2.3 million. Following the conclusion of the training program, the agency intended to put some equipment in storage and surplus the rest.

The National Audiovisual Center at GSA reports that the Federal Government is one of the largest owners of audiovisual facilities in the country, owning or leasing 1,519 audiovisual facilities totaling 8.9 million square feet of space in fiscal year 1979. Since 1978 OMB has been trying unsuccessfully to force agencies to consolidate or even eliminate audiovisual facilities that may be underutilized or nonessential to the Government's mission. Mr. Chairman, my proposed reduction of $250 million in this area would go a long way toward bringing the Federal film making and audiovisual functions under control.

WASTE, FRAUD, AND ABUSE IN CONSULTANT SERVICES

Another area of waste, fraud and abuse that has been well documented is the area of consultant services, contracts, and studies. Depending on whose definition you use, estimates of the amount Uncle Sam spends annually on consultant services ranges from as low as $400 million, estimated by OMB last year; to $2.4 billion as estimated in a Senate Appropriations Committee Investigative report done for Chairman Warren Magnuson; to multiples of this amount spent by the Department of Energy alone. My distinguished colleague Senator Pryor of Arkansas, perhaps the Senate's leading expert in this area, has said, "The number of consulting service arrangements the Government has, the cost, and the purposes for which they exist is still not available to even the President, the United States Congress or the American people." The National Tax Limitation Committee, in its report of February 15, 1981, on expenditure control opportunities, pointed to a Washington Post investigative study of consultants that showed that of the 13,848 contracts awarded to consultants and researchers reviewed, two-third were granted without competition, many were awarded to former Government officials, and numerous studies were completed that went virtually unread. The General Accounting Office in one of several reports on the consultant problem pointed to a $160,947 Office of Education contract that was awarded to survey the supply and demand of newly graduated teachers. This survey was delivered 11 months late at a cost of $325,920—more than double the original contract price. The National Tax Limitation Committee study concludes in its comprehensive report on spending cuts that restricting the use of consultants could save between $500 million and $1 billion per year in the Department of Energy alone, with potential governmentwide savings of $2 to $3 billion.

My recommendation to this committee calls for savings of $1 billion in consultant services next year.

PUBLIC AFFAIRS COULD BE CUT BY MILLIONS

What about public affairs, public information, and public relations? Mr. Chairman, as I have said many times, Government is big business and like big business, the Federal Government is spending large amounts of its scarce resources on public relations, public affairs, and public information programs which appear to be largely self-promotional. A 2-year comprehensive study of Federal spending programs by UPI investigative reporter Don Lambro revealed that both OMB and the Office of Personnel Management had privately estimated the cost of Government public relations, self-promotion and other public information activities of the Federal Government at over $1.5 billion a year. According to the White House reorganization project of 1978, more than 1,000 people from 20 different agencies are assigned to congressional relations at a cost of approximately $24 million. Other agency personnel work within the agency to promote agency programs and inundate the public with information, charts, pictures, press releases, and publications on various program matters. Mr. Lambro's research revealed that in the Department of Agriculture alone nearly 1,000 people are employed as information media workers to handle public information and public relations duties, while the Department of Defense has a press and public affairs staff or more than 316 people in the Pentagon with another 1,200 scattered around the country to handle DOD's public relations and press activities. Add to this the 459 public affairs staff at the Department of Health and Human Services and their budget of $25.4 million and it is clear that public affairs is big, big business in the Federal Government. My recommendation is that savings of $120 million could be realized in the area of public affairs next year.

Finally, in the area of advertising, the American Association of Advertising Agencies, Inc., has estimated that it spends approximately $144,300,000 a year on advertising, most of which is in the Department of Defense. The Congressional Budget Office in its report entitled "Reducing the Federal Budget: Strategies and Examples, Fiscal Years 1982-1986" indicated that $18 million in savings could be achieved by the military through the increased use of joint-service advertising. CBO suggests that the Department of Defense has found that, for certain purposes, joint-service advertising would be most cost-effective, pointing to tests that showed joint-service magazine advertising, for example, yields per dollar spent 1.5 times the number of applicant leads for recruiting as does single-service magazine advertising. The report goes on to say that joint-service advertising may also help to avoid undesirable inter-service competition for recruits. Therefore I believe that savings of $30 million could be achieved in advertising activities next year.

RID PROGRAMS OF FRAUD, ABUSE, AND WASTE

Mr. Chairman and members of the committee, I know that the call for savings in the area of waste, fraud, and abuse often is met with derisive humor and disdain. I am pleased, however, to note that even during your opposition to my amendment to the reconciliation resolution, both you and Senator Hollings acknowledged the need to rid programs of fraud, abuse, and waste. Senator Hollings said that we should "try to eliminate waste, fraud, and abuse wherever it is." President Reagan just 10 days ago launched his own campaign to root out waste, fraud, and abuse in the Federal Government, and, as my colleague from Michigan, Senator Riegle said on the Senate floor the other day "turn the junkyard dogs loose" on this problem. President Reagan has estimated that his measures will save at least $7 billion of the $765 billion Federal budget. The general Accounting Office's chief accountant, Mr. Donald Scantlebury, told the House Budget Committee in early March that the Reagan administration could save as much as $14 billion by implementing better management procedures that the GAO and others have recommended for years. Adoption of my savings and incorporation of these dollar-specific economy measures will represent a substantial downpayment on a long-term effort to ferret out waste in Government in activities that do not affect the national defense; in programs that do not affect the poor, the elderly, the handicapped, or the veterans of this country.

Just this past week, there were dozens of rollcall votes on amendments to add back funds for veterans' programs; for the elderly; for school lunch programs; for mental health and nutrition programs; and for health immunizations. All but one of these amendments were defeated in the name of fiscal restraint and the need to reduce Federal spending. Well, I voted for some of those amendments and against others. But if we were to make the kind of expediture reductions that I am recommending today, then we might be able to accommodate some of these essential social programs that serve so many of our most needy citizens, without busting the budget.

Mr. Chairman, again, I urge your committee to give serious consideration to adopting the savings proposals that I have spelled out today. I pledge to work with your committee to effect these savings and to work through my own Appropriations Committee to bring about these reductions.

Thank you, Mr. Chairman.

Senator SYMMS. Well, thank you very, very much, Senator DeConcini. I have to say that you certainly do not need to apologize to me or thank me for being here. I am just glad I was here to hear your excellent testimony. I think on the next go-around on the budget resolution, I think you will find that you are going to have a lot more support for this and certainly for your bill, because I think your testimony makes a lot of sense. You are going after areas where there is obviously some money that can be saved and squeezed and cut out, and I am very happy I was here to hear your complete side of this study.

As you know, being a Member of this Senate, we all have too many things to do, and everybody has to be someplace, but I am glad that I happened to be here this morning to hear your testimony, because I had somehow missed that in the debate on the floor, and I think that it is not too late to put this into effect as we move into fiscal year 1982 on the first and second budget resolutions. I intend to study this a great deal more and most likely will be helpful to you.

So thank you very much.

Senator **DeConcini**. Mr. Chairman, thank you very much. I appreciate that, too, that the time is not forever gone. We still have an opportunity to incorporate this, and this committee can play that initial role.

Senator **Symms**. I think in the first budget resolution, there was some concern that maybe they had gone as far as they could go on the reconciliation process without further——.

Senator **DeConcini**. I appreciate the chairman and the ranking member's position on that. It just seemed to me that if we were really after it, as they say, to reduce some expenditures, that we ought not let this go. But indeed, if this committee does adopt some or all of these, or expand them—because I have no pride that I am the only one who has found some things here; a lot of Senators have different reports and have seen them—I think we will really have done this country a great favor.

Senator **Symms**. Thank you very much.

Senator **DeConcini**. Thank you, Mr. Chairman.

Senator **Symms**. The Budget Committee stands adjourned until 10 o'clock on Monday.

[Whereupon, at 12:30 p.m., the committee was adjourned, to reconvene Monday, April 6, 1981, at 10 a.m.]

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ALTERNATIVE BUDGET PROPOSALS

MONDAY, APRIL 6, 1981

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The committee met, pursuant to notice, at 10:20 p.m., in room 6202, Dirksen Senate Office Building, Hon. Pete V. Domenici, chairman of the committee, presiding.

Present: Senators Domenici, Symms, Grassley, Gorton, and Exon.

Staff present: Stephen Bell, staff director; Gail Fosler, chief economist; William Stringer, senior economist; and Lizabeth Tankersley, minority staff director.

OPENING STATEMENT OF CHAIRMAN DOMENICI

Chairman **DOMENICI**. Let me welcome the panel. I am hopeful that a few more Senators will come. I want to tell you in advance that I intend to stay as long as I can. I engaged in the very strenuous sport of challenging my wife to tennis Saturday afternoon and it was a very good time for me to throw my back out. But maybe some people will think that it is very good for the process if I am not able to be around for a few days. But we want to proceed and listen to you all. I have some opening remarks. Even though they are brief, I am just going to make them a part of the record and we are going to proceed.

PREPARED STATEMENT OF CHAIRMAN DOMENICI

Section 2 of the budget act declares that it is the purpose, among others, of the budget process to establish national budget priorities. It is a difficult task. One person's priority is another's unnecessary spending. But it is a task which the political process and the budget process, in particular, is designed to handle.

We begin marking up the first budget resolution for fiscal year 1982 tomorrow. We have already taken a large and historic step toward altering the Nation's spending priorities in the $36.4 billion reconciliation instruction passed by the Senate last week, but I should assure our panelists today that this committee's job is far from completed by the reconciliation instruction. Its outlay total is less than 5 percent of the amount anticipated in fiscal year 1982 current policy; its provisions go only to aggregate spending reductions by each committee—not specific programs; and reconciliation did not take account of many program initiatives.

I would like to welcome our panel this morning to discuss the overall national spending priorities to be included in the fiscal year 1982 first budget resolution. Testimony today will be heard from Dr. Richard Rahn, vice-president and chief economist of the U.S. Chamber of Commerce; Peggy Taylor, legislative representative from the AFL-CIO; Dr. Jack Carlson, executive vice-president and chief economist with the National Association of Realtors; and Marion Wright Edelman, president of the Children's Defense Fund.

I welcome all of you here today, and I look forward to receiving your comments and insights.

Chairman **DOMENICI**. I would first ask Senator Exon if he has any opening remarks.

Senator **Exon**. Thank you, Mr. Chairman. I have no opening remarks. I just wish to thank the panel for being here this morning. As you know, we are starting our next laborious process next week on the first concurrent budget resolution, and the economic assumptions and everything else that we have to wrestle with. I am looking forward to the testimony and I probably will have some questions just for clarification for myself and the members of the committee after the testimony. Thank you.

Chairman **Domenici**. Thank you very much.

If the committee does not have any objection, we will proceed in the following manner, with Dr. Richard Raun, Peggy Taylor, Jack Carlson, and Marian Wright Edelman. I would say, though, since we are back to our informal roundtable, let us keep it informal. If you feel compelled to interrupt and talk about something, just let me know and we will do that.

I know you have opening remarks; if we you can keep those brief, we certainly want to hear your opening remarks, but we will start in the order that I announced.

If you will start, Doctor, we will proceed in that manner.

STATEMENT OF RICHARD W. RAHN, VICE PRESIDENT AND CHIEF ECONOMIST, CHAMBER OF COMMERCE OF THE UNITED STATES

Dr. **Rahn**. Thank you, Mr. Chairman. I am Richard W. Rahn, vice president and chief economist of the U.S. Chamber of Commerce, on whose behalf I am appearing today, and we thank the committee for inviting us.

The chamber has endorsed the President s program for economic recovery in its entirety. Adoption of the administration's package represents a major first step in the direction of implementing the policies that the U.S. Chamber has been advocating for the past 2 years.

Particularly, we wish to applaud the committee and the whole effort of the Senate in proceeding in a speedy way with the spending reductions.

I would like to direct a couple of my oral remarks to a few specific areas rather than review the entire program, and I request that my entire written statement be put in as part of the record.[1]

Chairman **Domenici**. It will be made a part of the record.

REFORM AUTOMATIC INDEXING OF FEDERAL PROGRAMS

Dr. **Rahn**. There are a couple of areas of particular concern that I would like to discuss this morning: first, the need to reform the automatic indexing of Federal programs. Automatic indexing of Federal spending to the rate of inflation is an area where significant budget cuts can and should be made. Cost of living escalators are now formally built into about 30 percent of total outlays in the fiscal 1981 budget. Over 50 percent of these total outlays are currently linked to cost of living measures if informal, quasi-indexed programs are included.

In this fiscal year alone, over $24 billion in expenditures will be triggered as a result of automatic indexing provisions in the Federal budget. While full linkage to the Consumer Price Index is the norm for most of the federally indexed programs, pensions in the private sector, on average, hardly compensate for inflation at all, while negotiated cost of living adjustment clauses compensated for only about 57 percent of the rise in the CPI.

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[1] See p. 120.

As a result, social insurance contributions are now rising faster than money wages and after-tax income is rising more slowly than income from social security or from Federal civilian and military retirement plans.

USE INDEX THAT MEASURES PURE INFLATION

Although I do not have an explicit solution to offer you today, I do think that a promising alternative to the present system and to the frequently mentioned reform proposals is an index that measures pure inflation by excluding from the general price level those price changes that stem from supply shocks that frequently influence energy and food prices. The distinction is an important one in considering the Federal budget because indexing should be designed to protect incomes from pure inflation, not from all changes in the cost of living. In particular, indexing for scarcity-induced price increases does not increase the supply of scarce goods, and therefore cannot maintain real purchasing power in such situations.

Pure inflation is a rise in the general level of prices caused by excessive growth in the supply of money and credit. Particular prices can increase for reasons that have nothing to do with inflation; for example, shortages due to crop failure, scarcity due to depletion of natural resources or foreign cartels.

While such price increases do increase the cost of living, they cannot be protected against by indexing, as can pure inflation.

PROPOSALS FOR TAX RATE REDUCTION

I would also like to just briefly discuss the proposals for a tax rate reduction. It is clear that for far too long, we have ignored a fundamental tenant of taxation, that the tax system ought not to interfere with the productive economy any more than absolutely necessary to raise the requisite tax revenue. While few would quarrel with the validity of this statement, nonetheless we have continued to adhere to a tax system that discourages productive activity far more than necessary and, as a consequence, has diminished rather than increased potential revenue.

While few deny the stimulative effects of individual income tax cuts and the pressing need for investment-oriented tax relief, there are some who claim that these cuts should be delayed or substantially reduced on the grounds that they would be inflationary or they would disrupt the economy by increasing the deficit.

TAX RATES CONFUSED WITH TAX REVENUES

I believe these arguments are fallacious on several counts. First, opponents of the President's proposal confuse tax rates with tax revenues. We know from historical experience that reductions in marginal tax rates stimulate economic activity, broaden the tax base, and discourage individuals from participating in tax shelters and the underground economy.

These tax revenue feedback effects have always been substantial and are much greater than estimated before the fact. Our most recent similar experience, the Kennedy tax cuts of 1964 and 1965, which were of comparable magnitude to the proposed package given today's economy, led to much higher revenues that had been forecast, particularly from upper-income groups which experienced the greatest absolute decrease in marginal tax rates.

From 1963 to 1965, over a period when marginal tax rates were slashed, on average, by 18.8 percent, tax revenues from upper-income brackets actually increased by 58.6 percent.

GOVERNMENT SERVICES INCREASE DURING ECONOMIC DECLINE

Second, the demand for Government services, particularly transfer payments such as unemployment compensation, food stamps, welfare, et cetera, always increases dramatically during periods of economic decline, and their growth rate diminishes during periods of economic growth. Tax cuts, by stimulating economic growth, will cause Government spending to be less rather than greater than it would be in the absence of such cuts.

Given the beneficial effects which result from supply-oriented, revenue feedbacks, and a lower level of Government spending, tax cuts would not necessarily result in a greater deficit, even though short-run revenues might be less.

Even if the deficit increases or stays the same after a properly structured tax reduction, the higher deficit would not crowd out private borrowing if it caused the supply of saving to increase. As evidence from past tax rate cuts demonstrates, across-the-board changes in tax rates have had a major influence on the personal savings rates, particularly during the last two decades. Each time, savings rates changed by two or three times the change in tax rates. If this relationship holds when the administration's proposed tax cut takes full effect in 1984, savings rates that year would be roughly 3.2 to 4.4 percentage points over the 1980 level of 5.6 percent. Such an increase would imply that personal saving would be approximately $90 to $120 billion higher in 1984 with the tax rate cut than without it.

SEVENTY PERCENT OF RATE CUT WILL BE SAVED

A new study just completed for the U.S. Chamber by the respected consulting firm, Mathematica Policy Research, indicates that in 1982, as much as 70 percent of the cumulative 15-percent rate cut proposed by the administration will be saved. Moreover, this saving will occur at all income levels, whether in the form of paying off debts, as would be the case for most families with an income of less than $20,000, or adding to existing savings, in the case of families with an income of over $20,000.

Finally, in conclusion, if we can make swift and substantive progress in implementing the four major policy initiatives proposed by the President, I believe the American economy will be well prepared to meet the challenges that confront it and embark on a path of sustained growth with real rising standards of living. But if we fail to act now, the delay will lead to greater weakness and make progress all that more difficult to achieve in the future.

Thank you, Mr. Chairman.

Chairman **Domenici**. Thank you, Doctor.

STATEMENT
on the
PRESIDENT'S PROPOSED ECONOMIC RECOVERY
PROGRAM AND BUDGET REDUCTIONS
before the
SENATE BUDGET COMMITTEE
for the
CHAMBER OF COMMERCE OF THE UNITED STATES
by
Dr. Richard W. Rahn
April 6, 1981

I am Richard W. Rahn, Vice President and Chief Economist of the Chamber of Commerce of the United States, on whose behalf I am appearing today. The U.S. Chamber is the world's largest business federation comprised of more than 112,000 businesses, Chambers of Commerce in the United States and abroad, and trade and professional associations. On behalf of our members, we welcome this opportunity to testify in support of President Reagan's economic recovery program and the need for further substantial reductions in Federal spending.

SUMMARY

The Chamber has endorsed the President's program for economic recovery in its entirety. Adoption of the Administration's package represents a major first step in the direction of implementing the policies that the U.S. Chamber has been advocating over the past few years.

In recognition of our stagnant economic growth, low capital formation and continued high inflation, the U.S. Chamber recommends that Congress move rapidly to:

- o Enact extensive spending cuts to curb the tendency of government to "crowd out" private spending and business investment;
- o Enact a package of tax reductions to provide the incentive for the private sector to work, save and invest;
- o Support a more moderate and stable monetary policy designed to hold the monetary growth rate on a path conducive to stable prices; and
- o Reform the regulatory process to achieve the objectives of environmental quality, workplace safety

and energy conservation and development at the lowest possible cost to the economy.

THE CURRENT STATE OF THE ECONOMY

The problems that have confronted our economy over the last dozen years are well known to all of us. In many respects, the decade of the 1970s represented a significant break in the economic progress that this country experienced beginning with the end of World War II. During the past decade, inflation reached its most virulent levels, and, despite public alarm with continually escalating prices and the implementation of many programs ostensibly designed to bring them under control, inflation actually worsened toward the end of the period.

Overall economic activity has been highly erratic. Since the end of the 1960's, we have experienced three serious recessions. Financial market instability appears to have become a common characteristic of our economic environment; in the last 17 months, we have experienced three credit crunches, each worse than the preceding one in terms of the peaks to which short-term interest rates rose. With the exception of the Great Depression, such sustained instability is unprecedented in our economic history.

As we take stock of the events of the past decade, we find even more distressing signs of deterioration. The average wage earner, for example, has seen his or her real spendable earnings decline 15% since 1972. Looking back on our recent performance, this result should not be at all surprising; among other things, the 1970's were characterized by a significant decline in the rate of productivity growth.

From 1955 to 1965, our productivity increased at an annual rate of 3.1%. From 1965 to 1973, the growth rate declined to 2.3% and then limped along at less than 1.0% from 1973, to 1978. Since then, productivity has declined for three consecutive years, an occurence without precedence since data collection began in 1909.

This means that the average American worker is producing fewer goods today than were produced in 1978. This trend also explains why some of our key industries are under severe competitive pressures from their foreign counterparts. As international comparisons clearly demonstrate, our productivity growth rate over the past decade has been below that of our major competitors. Unless we take immediate steps to address these problems, productivity will continue to stagnate and our standard of living will suffer accordingly.

THE ROLE OF ECONOMIC POLICY

Although our problems have as their cause a wide range of factors, these influences often have been exacerbated by wholly inappropriate or ineffective government economic policies. In large part, we have relied on policies requiring forced private sector austerity to solve our problems. Scarce resources have been flowing in ever greater volumes to all levels of government. Private citizens and businesses have been subjected to increasingly higher taxes, and a host of regulations, guidelines and special programs have been imposed to meet numerous objectives ranging from control of inflation and the reduction in unemployment to improved environmental and safety standards. But as the record clearly indicates, the results have been far different than intended.

Moreover, we have placed greater and greater reliance on programs and policies that have significantly increased the extent to which large segments of our population have become, in whole or in part, dependent upon the largess of government transfer and subsidy programs. While these programs initially had as their purpose the legitimate objective of assisting the truly needy and those incapable of self-support, subsequent legislation and interpretation have greatly liberalized entitlements and expanded program coverage to encompass individuals and business entities that possess the capacity to assist themselves. As a consequence, government has fostered the development of a substratum of American society that is becoming increasingly divorced from the concepts of individual initiative and self-reliance.

Beyond this, there has also been a tendency to support endeavors that have little bearing on meeting pressing national priorities. Certain subsidies for inefficient forms of transportation, the arts and humanities, educational loans, consumer cooperatives, exotic fuels, and mortgage credit fall into this category. Finally, there is a whole class of programs that were established at an earlier time in response to an environment of economic stress that no longer exists. Many of the rural and agriculture programs fall into this category.

Most were established during the Depression when the need was great, but they have continued and expanded since, despite the changed economic circumstances.

As we survey the present state of our economy, the bloated federal budget whose growth is nearly out of control, and the intense international competition that faces us in both the political and economic spheres, we cannot help but cringe at the enormity of the challenges that confront us as a Nation and you as its policy-makers.

As I consider the magnitude of these problems, it is clear to me that we stand at a critical point in our economic history where the challenges to our well-being are nearly as great as they were fifty years ago when economic depression and ascendant totalitarianism menaced our civilization. To do nothing or to continue with the oppressive policies of the recent past is to accept the harsh Spenglerian view of our existence and the inevitable collapse that will follow. This, obviously, is not a course that any of us are willing to accept.

Several years of self-examination and self-doubt have led this country to rethink its approaches to problems and the meaning of the American experience. Out of this process has emerged a new emphasis on the ideals and attitudes that spurred this Nation to greatness. In a sense, this reemphasis of fundamental principles reflects an alternative view of the historical process, bringing to mind Toynbee's cultural dynamics that emphasized the development of civilizations, not their collapse. For Toynbee, the genesis, development and survival of a civilization followed from the way it responded to a serious challenge. Those civilizations that marshalled their will and resources for a successful response continued to develop and prosper.

The electorate is fully cognizant of the challenge, and in November responded by electing a President who understands the uniqueness of the times and who has proposed a bold agenda for quick and substantive action. The very fact that this Committee is seriously considering the kind of economic program before it gives credence to this view and reflects a powerful will to make a future that is better than the recent past.

The U.S. Chamber believes that President Reagan's proposed tax, spending, regulatory and monetary policies offer the best response to the challenges that confront us. At their core, they represent a fundamental change in the government's attitude toward itself and the private sector, and its perception about the sources of the problems. Whereas past policies treated symptoms, the Administration's program treats its causes.

For this reason, the U.S. Chamber will work aggressively for passage of the Administration's program by making full use of our vast membership base and our extensive communications network. We intend to use these resources to inform our members of the pressing need for these new policy initiatives, to monitor the progress of the program through Congress, and to rally support to overcome any obstacles erected to delay its enactment or water down its provisions.

THE NEED TO LIMIT FEDERAL SPENDING

Perhaps the most difficult task facing the new Administration and the new Congress will be the control of Federal spending. Over the last two decades, the federal government's share of our gross national product has increased steadily from around 18% in the early 1960's to a projected 23% in this fiscal year. Whether the budget growth is financed by taxes or borrowing, this increase in the federal government's share of our output adversely affects our economic performance by absorbing ever-increasing amounts of resources from a weakened private sector, resources that could better be used by individuals and businesses to get the economy growing again and to raise the standard of living of all our citizens.

Over the past two decades, this country has tended to view Federal spending as a costless way of solving perceived problems or meeting newly devised national objectives. But since the heady days of the Great Society, there have been considerable changes in our economy that necessitate a complete and thorough evaluation of government spending programs. The issues confronting the American economy at present are radically different from those of the mid-sixties, when much of the expansion of the public sector was undertaken. During the 1960's, high real growth and comparative price stability made expansion of transfer payments and government service programs appear relatively costless.

It has become apparent, however, that this massive shift in resources from the private to the public sector that followed from these policies has been at the expense of economic growth, price stability and the individual initiative so vital to encouraging the dynamism of our economy and society. To reverse this trend, a policy of federal retrenchment and consolidation is called for. Such a reevaluation is not, as some critics have charged, a wholesale dismantling of the legitimate welfare and benefit programs. Rather, it represents a systematic review of fiscal priorities for the purpose of eliminating ineffective and unnecessary programs.

The U.S. Chamber believes that substantial budget cuts can and should be made beginning this year, and that these cuts can be accomplished without sacrificing essential services or diminishing the well-being of those with legitimate needs who depend upon one or more of the government's many benefit programs.

But while we support the President's proposed package of budget reductions, we believe that the present needs of the economy necessitate, and that the recent statements by many members of Congress and other prominent public officials support a more extensive evaluation of the many Federal spending programs for the purpose of making further reductions in government outlays. Even with the President's proposed reductions and the stimulative effects of the proposed tax cuts, the projected cumulative budget deficit of $122 billion over the next three years argues strongly in favor of making further spending cuts now.

The U.S. Chamber has neither the resources nor the expertise to address itself to a line by line evaluation of all of the many spending programs for the purpose of advising Congress on where further specific cuts can be made. However, a useful starting point in this endeavor would be the several comprehensive Federal spending reduction studies developed by other organizations. These include the excellent work of the Congressional Budget Office, the National Tax Limitation Committee, the Heritage Foundation and the many reports of the Government Accounting Office.

The Need to Reform the Automatic Indexing of Federal Programs

Automatic indexing of federal spending to the rate of inflation is another area where significant budget cuts can and should be made. Cost-of-living escalators are now formally built into 30% of total outlays in the

FY 1981 budget. Over 50% of total outlays are currently linked to cost-of-living measures if informal, "quasi-indexed" programs are included. In this fiscal year alone, over $24 billion in expenditures will be triggered as a result of automatic indexing provisions in the Federal budget.

The table below enables us to compare the proposed cuts in the Reagan Administration's budget with potential savings possible from reducing (or eliminating) indexing-induced expenditures. Even after adjusting these latter figures for the lower rate of inflation that we believe the President's program for economic recovery will produce, the potential savings from reduced indexing are still considerable, in excess of $16 billion in FY 1984, and, of course, much more in earlier years.

POTENTIAL SAVINGS IN FEDERAL SPENDING: INDEXED EXPENDITURES AND THE ADMINISTRATION'S PROPOSED CUTS

(in $ billions)

Total Expenditures:	FY 1981	1982	1983	1984
Proposed Budget Cuts in February 18 Program for Economic Recovery	4.4	41.4	79.7	104.4
Indexing-Induced Spending in Carter's Budget with Reagan's Economic Assumptions	24.0	22.9	19.8	16.3

While full linkage to the Consumer Price Index (CPI) is the norm for most federally indexed programs, pensions in the private sector, on average, hardly compensate for inflation at all, while negotiated Cost of Living Adjustment (COLA) clauses compensate for only about 57% of the rise in the CPI, according to a recent study in the Bureau of Labor Statistics' Monthly Labor Review. As a result, social insurance contributions are now rising faster than money wages, and after-tax income is rising more slowly than income from social security or from federal civilian and military retirement plans.

In addition to the issue of equity with the private sector, a reduction in indexing is warranted on the basis of controllability over the federal budget. The combination of high inflation and growth in indexing has been a major source of budget uncontrollability the past two years.

A reduction in indexing is further warranted because the CPI generally overstates increases in the cost of living faced by most Americans. This is an extremely complex issue which involves not only the accuracy of the CPI as a measure of inflation used for cost-of-living purposes, but also the use which is made of it by Congress in developing public policies. Use of the CPI in indexing implies, falsely, that a country can protect incomes against any increase in the cost of living, no matter what the source. A shortage of food or energy, for example, will typically lead to an increase in the price of those goods. Where incomes are "protected" against this type of price increase, as opposed to one generated by excessive monetary growth, indexing becomes a source of further inflation. Indexing for scarcity-induced price increases does not increase the supply of the scarce goods, and therefore cannot maintain real purchasing power in such situations. Such indexing is purely inflationary and only hinders the operation of the price system as a rationing mechanism in the market.

At present, there are a number of alternative indexes that have been proposed as replacements for the CPI for indexing Federal programs. These include 1) CPI-X1; 2) Personal Consumption Expenditures Chain Weight (PCE); 3) Average Hourly Earnings (AHE) or Employment Cost Index (ECI); and 4) an AHE or ECI cap to the CPI.

Based upon an initial analysis by our staff, each of these proposals contains enough flaws to raise questions about their appropriateness as a replacement for the CPI. On purely budget control grounds, the first two proposals could actually increase outlays if the expected decline in mortgage interest rates occurs over the remainder of this year and into next. If this transpires, growth in the CPI will be lower than that in either the CPI-X1 or the PCE chain weight. Also, on purely technical grounds, these indexes measure both inflation and relative price changes due to exogenous supply shocks and would thus tend to overstate pure inflation.

The wage index would also create budgetary problems in the event that this country resumes higher productivity growth and reduces the rate of inflation. Under these circumstances, which were the norm prior to the decade of the 1970s - wage gains would outpace the increase in the CPI. The fourth proposal, a wage cap to the CPI-W, does guarantee budget savings, but it also guarantees a continuously declining level of real benefits for recipients.

Although I do not have an explicit solution to offer you today, I do think that a promising alternative to the present system and to the frequently mentioned reform proposals is an index that measures pure inflation by excluding from the general price level those price changes that stem from supply shocks that frequently influence energy and food prices. The distinction is an important one in considering the federal budget because indexing should be designed to protect incomes from pure inflation, not from *all* changes in the cost of living. In particular, indexing for scarcity-induced price increases does not increase the supply of the scarce goods, and therefore cannot maintain real purchasing power in such situations.

Pure inflation is a rise in the *general* level of prices caused by excessive growth in the supply of money and credit. *Particular* prices can increase for reasons that have nothing to do with inflation, for example, shortages due to crop failure, scarcity due to depletion of a natural resource base or a foreign cartel. While such price increases do increase the cost of living, they cannot be protected against by indexing as can pure inflation. Indeed, any general attempt to protect incomes against scarcity-induced price increases can only contribute to inflation since it creates more purchasing power for a reduced supply of goods than is necessary to 'clear the market.' By contrast, indexing incomes for inflation creates additional purchasing power just sufficient to clear the market at a new, higher general price level.

From the perspective of potential budgetary savings in the long run, these distinctions are far more important to grasp than the current CPI measurement debate. No conceptually satisfactory measure of pure inflation yet exists for purposes of indexing, but two imperfect measures (misleadingly referred to as core and underlying inflation) have been developed recently out of the recognition that even an accurate cost-of-living measure such as a perfect CPI considerably overstates the rate of inflation. Using these measures, the table on the next page compares the costs to the federal budget for the past four years from two indexing errors:

(1) use of an exaggerated measure of cost-of-living increases for indexing federal programs (the official CPI),

(2) use of a cost-of-living measure instead of a pure inflation measure.

BUDGETARY COSTS FROM INDEXING ERRORS
($ MILLIONS)

	Source of error	FY 1978	1979	1980	1981 est.
1.	Overstatement in CPI of actual cost-of-living increases.	170	2,760	6,520	4,200
2.	Overstatement in CPI of pure inflation.	850	4,060	8,960	7,140

As is obvious, the extra budgetary costs that arise from the estimated overstatement of pure inflation are substantial. While we do not now propose that this change be made, we do strongly recommend that it be seriously considered by Congress at such time when the indexing issue is thoroughly discussed. For our part, we intend to continue to examine the question with the objective of developing a workable proposal for reform.

The Need to Control Federal Lending

There is also a need to control the growth of off-budget outlays, most of which are in the form of direct loans and loan guarantees extended under the many federal credit assistance programs. In recent years, off-budget credit support has grown much faster than have total budget outlays. Whereas budget outlays increased 78% over the period 1975 to 1980, outstanding government direct loans and primary loan guarantees increased by 96%.

Of greater significance is the extent to which government credit assistance is encroaching upon the pool of credit resources available for funding private sector capital investment. Over the decade of the 1970's, funds advanced and guaranteed through federal credit programs averaged 14.3% of total funds advanced each year. However, this participation rate has risen steadily over the past few years from 11.9% in 1977 to 17.8% in 1979 and to a record 23.2% in 1980. When the borrowing needed to fund the deficit is added to that required to support the credit programs, the federal participation rate in U.S. credit markets rises in 1980 to 35.7% of the total volume of funds raised.

In conclusion, the U.S. Chamber has carefully evaluated the President's proposed cuts. They are fair and equitable, and do not jeopardize essential services or create undue hardships for those with legitimate needs. While several of these reductions are in programs that we have actively supported in the past, we realize that all segments of our society must be prepared to make sacrifices in their favorite programs if the goal of reducing the growth in government spending is to be achieved. We urge that Congress work closely with the Administration to develop a bi-partisan strategy of spending restraint.

THE NEED TO REDUCE THE TAX BURDEN

Much of our poor economic performance over the past decade stems from a tax structure that has increasingly discriminated against saving, investment and individual initiative. The Administration has proposed to tackle this problem with a bold package of tax rate reductions for individuals and a greatly improved capital cost recovery system for businesses. The U.S. Chamber fully supports these proposals and recommends their swift enactment.

In the absence of such cuts, individuals, who have already experienced deterioration in their standards of living as a result of the combined effects of low productivity growth, inflation and a steeply progressive tax system, will see their income and social insurance taxes rise by a staggering $65 billion in FY 1981 and $77 billion in FY 1982.

In large part, these anticipated tax revenue increases as well as those that have occurred over the past several years stem from the inflation-induced increases in nominal incomes that have pushed taxpayers into higher tax brackets over a period of time when there has been little change in their real incomes. As the table below clearly illustrates, the bracket creep effect has been especially severe for the households with above average income who account for the bulk of our savings.

INCREASES IN MARGINAL INCOME TAX RATES FOR VARIOUS INCOME CLASSES, 1965 and 1980*

Income Level	1965 Rate	1980 Rate	Percentage Point Change
One-half the median	14%	18%	+4
Median	17	24	+7
Twice the median	22	43	+21

*Median income and tax bracket for a four-person family, assuming itemized deductions equal 23 percent of adjusted gross income. Median income was $7800 in 1965, $24,600 in 1980.

SOURCE: Statement of John E. Chapoton, Assistant Secretary of Treasury (Tax Policy)--designate, before the House Budget Committee Task Force on Tax Policy, March 13, 1981, p.4

When you add to these federal rates the state and local income taxes that many households must also pay, it is readily apparent that many individuals with above average incomes are subject to a marginal income tax in excess of 50%. With such high rates imposed upon that segment of society which generates most of the personal savings, it is obvious that the traditional outlets for savings such a fixed income securities, savings accounts and many common stocks become unattractive investments since investing in anyone of them would lead to continual depreciation of wealth. Instead, such individuals are encouraged to place their funds into consumer durables and housing, collectibles, and/or the wide array of tax sheltered investments that are easily acquired through any brokerage firm. As a general rule, these investments do little to enhance the productive capacity of the economy, and we are a poorer Nation as a consequence of this gross misallocation of scarce capital resources.

Business firms, too, will continue to be subject to excessive tax burdens unless the present allowable depreciation ranges are replaced by the proposed Accelerated Cost Recovery System. Inflationary distortions in our corporate tax system have led to an effective real tax rate in excess of 50% throughout the past decade. Although after-tax corporate book profits have increased, this is little more than an illusion resulting from accounting and tax practices that fail to assess realistically the impact of inflation. Between 1967 and 1979, book profits after tax increased by 188% in current dollars. However, when the Inventory Valuation Adjustment and the Capital Consumption Allowances are taken into account, real profits in constant dollars fell 35% during this period.

When we consider these trends, it is clear that for too long we have ignored a fundamental tenet of taxation -- that the tax system ought not to interfere with the productive economy any more than absolutely necessary to raise the requisite tax revenue. While few would quarrel with the validity of this statement, nonetheless, we have continued to adhere to a tax system tha discourages productive activity far more than necessary and, as a consequence, has diminished, rather than increased potential revenue.

The President's proposed package of tax cuts would reverse this trend by reducing the major impediments that now pervade our tax system. If enacted, this package would increase both the supply and demand for labor, greatly increase needed savings and investment, and encourage the capital formation that is desperately needed to revitalize America.

While few deny the stimulative effects of individual income tax cuts and the pressing need for investment-oriented business tax relief, there are some who claim that these cuts should be delayed or substantially reduced on the grounds that they would be inflationary or that they would disrupt the economy by increasing the deficit.

I believe that these arguments are fallacious on several counts. First, opponents of the President's proposal confuse tax rates with tax revenues. We know from historical experience that reductions in marginal tax rates stimulate economic activity, broaden the tax base, and discourage individuals from participating in tax shelters and the underground economy. These tax revenue "feedback" effects have always been substantial, and are much greater than estimated before the fact. Our most recent similar experience, the Kennedy tax cuts of 1964 and 1965, which were of comparable magnitude to the proposed package given today's economy, led to much higher revenues than had been forecast, partcularly from the upper income groups which experienced the greatest absolute decrease in marginal tax rates. The table on the next page, which compares the income taxes paid by all individuals with incomes in excess of $100,000 in the years before the Kennedy tax cut and the years immediately after, illustrates the significant revenue effects that followed from that tax cut.

INCOME TAXES PAID BY HOUSEHOLDS WITH
ADJUSTED GROSS INCOMES IN EXCESS OF $100,000

Effective Maximum Marginal Tax Rate		Income Taxes Paid	Annual Percentage Change in Tax Revenues
1962	91%	$2.29 billion	-
1963	91	2.37	3.5%
1964	77	2.95	24.4
1965	70	3.76	27.4
1966	70	4.22	12.2

SOURCE: IRS, Statistics of Income

From 1963 to 1965, over a period when marginal tax rates were slashed, on average, by 18.8%, tax revenues from upper income brackets actually increased by 58.6%.

Second, the demand for government services, particularly transfer payments such as unemployment compensation, food stamps, welfare, etc., always increases dramatically during periods of economic decline and their growth rate diminishes during periods of economic growth. Tax cuts, by stimulating economic growth, will cause government spending to be less rather than greater than it would be in the absence of such cuts.

Given the beneficial effects which result from supply-oriented tax cuts -- revenue feed backs and a lower level of government spending -- tax cuts would not necessarily result in a greater deficit, even though short-run revenues might be less.

Even if the deficit increases or stays the same after a properly structured tax reduction, the higher deficit would not "crowd out" private borrowing if it caused the supply of saving to increase. As evidence from past tax rate cuts demonstrates, across the board changes in tax rates have a major influence on personal savings rates.

- In 1963, personal saving amounted to 5.4% of disposable personal income, according to Commerce Department data.

When individual income tax rates were reduced by an average of 18.8% in 1964 and 1965, the personal savings rate rose immediately, ultimately reaching 8.1% in 1967, an increase of 50% over the 1963 savings rate. This percentage increase is about 2.6 times as great as the fall in tax rates.

- In 1968 and 1969, a 10% tax surcharge was imposed. The personal savings rate dropped to 6.4%, a 21% decline from 1967, or 2.1 times the change in the tax rate.

- In 1971, the surcharge was no longer in effect, and tax rates fell by 9.1% compared to 1968 and 1969. The personal savings rate rose to 8.1%, a 27% increase from 1969, or 2.9 times the change in tax rates.

Each time, savings rates changed by two to three times the change in tax rates. If this relationship holds when the Administration's proposed rate cut takes full effect in 1984, savings rates that year should be roughly 3.2 to 4.4 percentage points above the 1980 level of 5.6%. Such an increase would imply that personal saving would be approximately $90 to $120 billion higher in 1984 (out of disposable personal income of $2.8 to $2.9 trillion) with the rate cut than without it.

A new study just completed for the U.S. Chamber by the respected consulting firm, Mathematica Policy Research, indicates that in 1982 as much as 70 percent of the cumulative 15 percent rate cut proposed by the Administration will be saved. Moreover, this saving will occur at all income levels, whether in the form of paying off debts (as would be the case for most families with income of less than $20,000) or adding to existing savings (in the case of families with income over $20,000). These conclusions are based upon a micro-simulation analysis using the 1976 Survey of Income and Education, projected forward in time to 1982 to reflect changed economic and demographic conditions. The estimated household savings responses to the tax cut are based on a statistical analysis of the household budget behavior of the 17,000 families included in the 1972/1973 Consumer Expenditure Survey.

These results should not be interpreted as implying that 70 percent of all tax cuts will be saved indefinitely. Naturally, over time, individuals will adjust their saving to more traditional levels. But the results do indicate that individuals will respond in the first full year of the tax cut, 1982, by saving a large part of the proceeds.

While the U.S. Chamber fully supports the President's tax cuts, they should be viewed as important first steps to removing some of the more serious tax impediments that now hinder our economic system. Additional tax changes will be required to encourage savings and investment and to remove some of the other serious distortions from the system if we are to improve our Nation's productivity and restore rapid economic growth. However, we believe that the Administration's two bill approach is appropriate, and give it our full support.

A NEW COMMITMENT TO A STABLE MONETARY POLICY

The attainment of economic stability and the reduction of uncertainty are critical components of any coordinated set of economic growth policies. Without this stability, the other, more narrowly focused policies are likely to be less effective. A strong and growing economy requires a dynamic business sector that invests and plans for its future. But it can do this only if it has some sense of what the future might hold. When economic policies change abruptly from restraint to expansion and back again, and when the outcomes of these policies lead to periods of recession followed by periods of accelerating inflation and sharply rising interest rates, the rational businessman is wise to be cautious and defensive. In this environment, risk-taking, innovation and investment are discouraged, and the effect of this attitude is sluggish growth and lagging productivity.

To meet the objective of stability, it is imperative that the Federal Reserve refrain from attempts to influence and control short-run economic events and, instead, strive to maintain a steady rate of moderate monetary growth consistent with the goals of price stability and properly functioning credit markets. Too often in the past monetary policy has been asked to bear a disproportionate share of the macroeconomic policy burden. When concern focused on unemployment and stagnant economic activity, as it did in the early 1970's, monetary growth was often increased to spur business. While some short-term stimulus may have occurred, such policies inevitably led to accelerating inflation, which, in turn, led to wage and price controls or guidelines and, finally, to severely restrictive monetary policies that created chaos in financial markets and sharp declines in economic output and employment. In large part, our present problem is a legacy of this pattern of stop-go stimulation and restraint.

The U.S. Chamber believes that the Federal Reserve's present monetary growth targets are appropriate and encourages the President and Congress to support such targets as the Federal Reserve endeavors to diminish the inflationary pressures that now pervade the economy.

REDUCE REGULATORY IMPEDIMENTS TO ECONOMIC GROWTH

Finally, we support the President's Executive Order to improve the coordination and management of the Federal regulatory process. The regulatory impediments that now constrict our economy impose significant costs on businesses and consumers alike. Of greater significance, they have often led to interminable delays, postponements and outright cancellation of new factories, real estate development, and energy-producing investments that are needed to support our future economic growth and increase our Nation's productivity.

CONCLUSION

If we can make swift and substantive progress in implementing the four major policy initiatives proposed by the President, I believe that the American economy will be well-prepared to meet the challenges that confront it and embark on a path of sustained growth with rising standards of living. But if we fail to act now, the delay will lead to greater weakness and make progress all that more difficult to achieve in the future.

As I have noted throughout my statement today, I believe that these proposed initiatives should be viewed as necessary first steps on the path to rapid and sustained economic growth. The many problems in our economy have been a long time in building. They cannot be solved in a single year with a single set of policies. Congress must be prepared to build on these initiatives and take further actions now and in the future to restore this Nation's preeminent position of economic and technological leadership. We cannot afford to slip back into the attitudes of the past which we now identify as the source of so many of our problems. We must be fully cognizant that the wealth of our Nation stems from the initiative, enterprise and creativity of our people and our businesses, and must be forever vigilant against policies and proposals that diminish this spirit.

Chairman **Domenici**. Senator, can we proceed with the other witnesses?

Senator **Exon**. Yes.

Chairman **Domenici**. Peggy Taylor?

STATEMENT OF PEGGY TAYLOR, LEGISLATIVE REPRESENTATIVE, DEPARTMENT OF LEGISLATION, AFL-CIO, ACCOMPANIED BY ARNOLD CANTOR, ASSISTANT DIRECTOR, DEPARTMENT OF RESEARCH, AFL-CIO

Ms. **Taylor**. Good morning. I am Peggy Taylor; I am a legislative representative with the AFL-CIO. I would also like to introduce, to my left, Arnold Cantor, who is the assistant director of our department of research and one of our economists.

I will shorten my statement and ask that the full statement be included in the record.[1]

Chairman **Domenici**. It will be made a part of the record, and I thank you for that.

AFL-CIO DOES NOT THINK PROGRAM WILL WORK

Ms. **Taylor**. While the AFL-CIO is in full accord with the need to revitalize the American economy, we are convinced that the administration's program of inequitable tax cuts, spending cuts, regulatory cuts, and counterproductive monetary policy will accelerate inflation, destroy jobs, hurt the poor, aged, children, the jobless, and the disadvantaged, and preclude essential public investments in services that are needed to revitalize cities and to complement private sector job creation and investment.

There are fundamental issues exemplified by urban decay, energy insecurity, falling real incomes, and the stagnation and decline of industries essential to domestic economic balance, growth, and international security. However, none of these problems can be measured by or equated with the size of the budget deficit.

The administration's revisions are not a representation of the expenditures, revenues, and proposals that reflect the Nation's needs and circumstances.

We strongly believe that this budget and the reconciliation process which is being used to carry it through the Congress are a corruption of the legislative process and usurp the normal deliberative role of the Congress. They add up to a massive attempt to reshape and restructure programs that have been devised, proposed, carefully considered, and enacted by Congress, deliberately funded, checked, and reviewed, as is provided for under the Nation's system of governance.

The budget proposes revisions in laws without the benefit of careful, prudent considerations, and advances a short-circuiting of the appropriate legislative process of deliberation and oversight. The budget is based on economic theories that have no foundation in fact or logic and ignore compassion.

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[1] See p. 143.

INFLATION NOT CAUSED BY GOVERNMENT SPENDING AND DEFICITS

Central to the administration's program is the notion that Government spending and deficits cause inflation. The evidence does not support this proposition. In fact, some of the sharpest price increases in recent years took place during periods when Federal expenditures relative to the size of the economy and deficits were being rapidly reduced.

We do not deny that the deficit in the Federal budget can affect the economy. However, its impact depends on a combination of many factors—the total amount in question, the rate and direction of change, how the deficit is financed, and above all its relationship to the state of the economy.

Since the economy is operating substantially below its productive capacity and subject to an inflation that is primarily the result of increased costs of energy, money, food, housing, and medical care, the deficit is a symptom and not a cause of economic adversity. Attempts to eliminate the deficit through cutting essential programs and services would weaken the economy and increase unemployment and cause individual hardship.

The so-called supply-side notion that provides the rationale for the inequitable tax cuts is illogical and indefensible. The contention that cuts in marginal tax rates will entice more people into the labor force and encourage them to work harder completely ignores the fact that there are already 8 million Americans looking for work, 4 million on part-time schedules because full-time work is not available, and over 1 million workers who have dropped out of the labor force because the search for a job was futile.

It also ignores the possibility that the more well-off, particularly as a result of the tax cuts effect on increasing their income, will be encouraged to work less and to play and spend more.

CONSUMER MARKET SPLIT INTO TWO TIERS

Business Week added the other dimension in a March 9 article entitled, "Why Consumer Spending Has Not Crumbled." The thrust of the article is found in the following excerpt, and I quote:

> The consumer market has been split into two tiers. In the top tier are high- and middle-income families who, because of their rapidly expanding equity in their homes and ability to reduce their taxable income by deducting interest costs and real estate taxes, have been able to continue to spend strongly. The health of the top tier has more than offset the weakness of the bottom tier, which has been battered by rising food, fuel, and housing costs.

We do not believe the Nation has been too generous in helping the poor, the disadvantaged, or the unemployed. The Reagan budget calls for huge reductions in a wide array of programs that are essential to the health and welfare of the Nation's needy and provide a critical underpinning of the entire economy.

We do not deny that programs can become more efficient and more effective, but that is not the essence of the administration's program. For example, I think we should look at the study that has recently been published by the University of Chicago's Center for the Study of Welfare Policy, which indicates that the incentives to the working poor are being dramatically reduced by the proposals particularly in AFDC and food stamps, as well as the other income support programs such as medicaid and low-income fuel assistance.

For example, in the State of New Mexico, the difference between the disposable income of a nonworking AFDC mother with two children and a working welfare mother with two children is currently, on the average, $114 a month. The Reagan proposals would cause the working welfare mother to have $4 less in disposable income than the mother on welfare and food stamps because of the design of the cutbacks.

For social programs—food stamps, minimum benefits for social security, student assistance, et cetera—distinctions are drawn between the needy, the truly needy, and those who could not survive without Government help. We do not feel that this Nation is in such dire straits that such distinctions are appropriate, and the administration's attempt to throw billions upon billions of taxpayer dollars into tax cuts for the wealthy and businesses, in the hope that some of the giveaways will end up in productivity-building investment, includes no such criteria and distinctions.

REAGAN PROGRAM WOULD SLASH PUBLIC INVESTMENT PROGRAMS

We do not believe that this Nation has been too ambitious in revitalizing its cities, improving transportation, or meeting its energy problems. Yet, the Reagan program would slash or eliminate public investment programs that provide skills, services, and facilities which add to the Nation's productive potential and target funds to areas of need.

This weekend, you may have noticed that a study was published that made the assessment that one-half to two-thirds of our cities could not support industrial expansion without massive additional investments in public facilities such as roads, sewer treatment plants, and waste disposal sites. Funding levels for those necessary public programs are being reduced, not increased, while at the same time we are trying to provide incentive to business to expand their capacity in those same geographic areas.

The cuts in the energy program are in direct conflict with the need to break OPEC's stranglehold. The transportation program cutbacks will cause service cutbacks that will result in increases in energy consumption.

Mr. Chairman, we have attached a program-by-program description and analysis of the potential effect of the administration's budget reduction proposals on people, jobs, and the economy. We would appreciate it if that analysis would be made part of the record.[1]

Chairman DOMENICI. It will be made a part of the record.

Ms. TAYLOR. Thank you.

SIZE AND SHAPE OF ADMINISTRATION'S TAX PROPOSAL WRONG

We believe that the size and shape of the administration's tax proposal is wrong, for we do not believe that business and wealthy individuals have been carrying a disproportionate share of the Nation's tax burden.

Despite the facade of equity implied by the 10-percent-per-year-for-everyone label, the tax cut overwhelmingly benefits high-income individuals and provides no cut at all for some 15 million low-wage workers whose social security taxes have increased and who will be the first-line victims of the budget-cutting proposals.

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[1] See p. 155.

Looking at it in one way, the administration's 3-year program would increase after-tax income—that is, after Federal income and social security tax—by 1.2 percent for those earning $5 an hour, but by 9.2 percent for those earning $50 an hour. Mr. Chairman, I know of no trade union leader who would negotiate such an agreement and ask for ratification based on its equity.

According to the estimates of both the administration and the Joint Committee on Taxation, nearly 30 percent of the benefits of the tax cut will go to those with incomes of $50,000 and over—the top 5 percent of the Nation.

The administration's depreciation proposal amounts to a rapid and arbitrary speedup in depreciation writeoffs which would render the concept of business income for income tax purposes meaningless. Huge revenue losses would result and the corporate contribution to the cost of Government would be cut by over one-third.

In addition to shifting even more of the Nation's tax burden away from business and the wealthy, the proposal would distort business investment decision and change relative tax burdens.

CORPORATE CASH FLOW WILL INCREASE

Because of the across-the-board nature of the proposal and the unfocused manner in which the benefits would be distributed, huge amounts of foregone revenue would end up subsidizing investment that would take place anyway and providing added cash to buy up other companies, increase dividends, invest overseas, speculate, or to finance shutdowns and relocations that destroy jobs and blight local communities.

The only certainty is that corporate cash flow will increase and Federal revenues will diminish. How much of the additional cash flow will go into productive, economy-building investment will be determined behind the closed doors of corporate board rooms.

In a major study released by the Treasury on the effect of such tax policies on investment, the authors noted that:

> We found little evidence that a dollar of lost tax revenues from 10-5-3 or the investment tax credit would ultimately gain more than 40 cents in added investment. It would be more cost efficient to have the Government buy the new plants and equipment and give them to business.

We see no justification, particularly at this time of budget slashing and proclaimed need for austerity and sacrifice, to throw as much as $60 billion a year in Federal tax cuts to the Nation's corporations and their stockholders and wait and hope that this largess will trickle down to workers and consumers in the form of needed jobs and more goods and services at reasonable prices.

EVALUATE EXISTING TAX EXPENDITURES

Rather, we feel the Congress should evaluate the array of tax expenditures already in existence. Provisions such as deferral of taxes on overseas profits, the oil depletion allowance, foreign tax credits, investment tax credits, and the like have all been justified as investment incentives. They should be examined to determine if the economy is receiving full and fair value for what is lost in tax revenues.

On February 19, the AFL-CIO executive council summed up the administration's economic program as:

> . . . a high-risk gamble with the future of America. Workers and the poor take the lion's share of the risk. The only sure winners are the wealthy, whether they are individuals or corporations. It is a gamble that has not paid off in the past, and one the Nation cannot afford to take.

The AFL-CIO, however, has come up with an alternative proposal. The program we recommend would deal specifically, effectively, and equitably with the causes of inflation and economic weakness. It is firmly based on the proposition that any austerity that may be required to fight inflation should be shared on the basis of the ability to sacrifice. This requires policies that reduce interest rates, directly attack the specific causes of inflation, reduce unemployment, and reduce taxes in a manner that concentrates individual tax relief on those who need it the most and cuts business taxes in a manner which will demonstrably help to meet productivity investment and reindustrialization goals.

We do not pretend that such a path is the quickest way to a balanced budget. We are, however, firmly convinced that it is the surest, fairest, and most enduring route.

Lastly, Mr. Chairman, on February 17 the AFL-CIO participated in the formulation of a national coalition to oppose the budget cuts proposed by the administration. The statement adopted by the coalition of more than 150 members is attached to our statement and we would ask that that also be made a part of the record.[1]

Chairman DOMENICI. It will be made part of the record. Thank you very much.

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[1] See p. 176.

STATEMENT OF PEGGY TAYLOR, LEGISLATIVE REPRESENTATIVE, DEPARTMENT OF LEGISLATION, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS, BEFORE THE SENATE BUDGET COMMITTEE ON THE FIRST CONCURRENT RESOLUTION FOR FY 1982

April 6, 1981

We appreciate this opportunity to present the AFL-CIO's views on the federal budget for F.Y. 1982.

In his February 18 message, the President painted a bleak picture of the current state of economic affairs and emphasized the need to reduce inflation, create jobs, increase productivity, restore our industrial base and make government more efficient.

The AFL-CIO is in full accord with these goals. Unfortunately, the measures advocated by the Administration are inequitable, unfair and will not work.

We are convinced that the Administration's program of harsh spending cuts, inequitable tax cuts, dangerous regulatory cuts and counter-productive money supply cuts will:

A) accelerate inflation;

B) destroy jobs;

C) hurt the poor, aged, children, the jobless and the disadvantaged;

D) preclude essential public investments and services that are needed to revitalize cities and to complement private sector job creation and investment.

The result will be increased human hardship, a weaker economy, greater strains on state and local budgets and an even larger wedge between the nation's haves and have nots.

The nation has an array of economic needs and problems to solve. There are immediate issues like the day-to-day financial and emotional plight of those who are unemployed and those whose only hedge against inflation is a tighter belt and a lowered aspiration.

And there are fundamental issues exemplified by urban decay, energy insecurity, falling real incomes and the stagnation and decline of industries essential to domestic economic balance, growth and international security.

None of these problems can be measured by or equated with the size of the budget deficit. They will not be met by engaging in a budget cutting, tax cutting program that is geared to lining the pockets and allaying the inflationary "expectations" of the wealthy and the most privileged in our society or catering to the simplistic notion that all of the nation's problems would go away if our government would simply spend less, tax less and protect less.

The Administration's revisions are not a presentation of expenditures, revenues and proposals that reflect the nation's needs and circumstances.

They are a corruption of the budgetary process that usurps the normal legislative process. They add up to a massive attempt to reshape and restructure programs that have been devised, proposed, carefully considered, enacted by Congress, deliberately funded, checked and reviewed as is provided for under the nation's system of governance.

The budget proposes revisions in laws without the benefit of careful, prudent considerations and a short-circuiting of the appropriate legislative process of deliberation and oversight.

The budget is based on economic theories that have no foundation in fact, or logic and ignore compassion.

Central to the Administration's program is the notion that government spending and deficits cause inflation. The evidence does not support this proposition. In fact, some of the sharpest price increases in recent years took place during periods when federal expenditures (relative to the size of the economy) and deficits were being rapidly reduced. From 1971 to 1974, for example, expenditures dropped from 20.7 percent of GNP to 19.9 percent and the deficit fell from $23 billion to $4.7 billion. Prices, however, jumped from a 3.4 percent annual rate of increase to 12.2 percent in 1974. From 1976 to 1979 -- one of the most rapid post-World War II periods of inflation -- the deficit was reduced from $66 billion to $27.7 billion and federal outlays dropped from 22.3 percent of GNP to 20.9 percent. Prices, however, rose from a 4.8 percent annual rate in 1976 to 13.3 percent in 1979.

The "bottom" line result of annual deficits is the size of the federal debt. And, once again, the facts present a far different picture than the rhetoric portraying federal spending as out of control and a government living beyond its means. Immediately following World War II, for example, the size of the debt actually exceeded the size of the economy by $6 billion. Currently, the debt amounts to less than 1/3 the economy's size.

Deficit spending in the U.S. is also small in comparison to the levels of deficit in other industrialized nations.

The 1981 Economic Report of the President notes that:

> "The notion that budget deficits are the chief cause of inflation...founders on a comparison of budget deficits and inflation among different countries. Japan and Germany have had much better success in combating inflation than the United States. Yet their budget deficits, especially those of Japan, have been much higher relative to the size of their economies than has been the case in the U.S." (Page 42, Economic Report of the President, 1981).

We do not deny that the deficit in the federal budget can affect the economy, however, its impact depends on a combination of many factors -- the total amount in question, the rate and direction of change, how the deficit is financed, and above all, its relationship to the state of the economy. Since the economy is operating substantially below its productive capacity and subject to an inflation that is primarily the result of increased costs of energy, money, food, housing and medical care, the deficit is a symptom and not a cause of economic adversity. And, attempts to eliminate the deficit through cutting essential programs and services would weaken the economy, increase unemployment and cause individual hardship.

The so-called "supply-side" notion that provides the rationale for the inequitable tax cuts is illogical and indefensible.

The contention that cuts in marginal tax rates will entice more people into the labor force and encourage them to work harder completely ignores the fact that there are nearly eight million

Americans looking for work, four million on part-time schedules because full-time work is not available, and over one million workers who have dropped out of the labor force because the search for jobs was futile.

It also ignores the possibility that the more well-off particularly, as a result of the tax cuts effect on increasing their income, will also be encouraged to work less and play and spend more.

Business Week added the other dimension in a March 9 article entitled, "Why Consumer Spending Hasn't Crumbled." The thrust of the article is found in the following excerpt:

> "The consumer market has been split into two tiers. In the top tier are high and upper-middle income families who, because of their rapidly expanding equity in their homes and ability to reduce their taxable income by deducting interest costs and real estate taxes, have been able to continue to spend strongly. The health of the top tier has more than offset the weakness of the bottom tier, which has been battered by rising food, fuel and housing costs."

The article also pointed out that the richest 40 percent of all households account for 60 percent of all retail sales and two-thirds of all spending on highly discretionary consumer goods.

We do not believe the nation has been too generous in helping the poor, the disadvantaged or the unemployed. The Reagan budget calls for huge reductions in a wide array of programs that are essential to the health and welfare of the nation's needy and provide a critical underpinning for the entire economy.

We do not deny that programs can be made more efficient and more effective. But, that is not the essence of the Administration's program. For example:

Cutting trade adjustment assistance will aggravate the problem of increasing joblessness due to failures in the nation's foreign trade policies.

Capping benefits for Medicaid recipients will not solve the problem of waste caused by an inefficient health care system or correct the fraud perpetuated by health care providers.

Eliminating the minimum Social Security benefit will further deepen the severe poverty faced by the 85 percent of the recipients of those payments who depend primarily on Social Security.

Wiping out a series of job and job training programs for the working poor will result in a greater number going on welfare.

Moreover, there is a strange double standard that permeates the Administration's proposals.

For social programs -- (food stamps, minimum benefits for Social Security, student assistance, etc.) distinctions are drawn between the "needy," the "truly needy;" and, those who could not "survive" without government help. We do not feel that this nation is in such dire straits that such distinctions are appropriate. And, the Administration's attempts to throw billions upon billions of taxpayers dollars into tax cuts to the wealthy and business's in a hope that some of the giveaways will end up in productivity building investment include no such criteria or distinctions.

We do not believe that this nation has been too ambitious in revitalizing its cities, improving transportation or meeting its energy problems. Yet the Reagan program would slash or eliminate public investment programs that provide skills, services and facilities which add to the nation's productive potential and target funds to areas of need.

Comprehensive Employment and Training Act (CETA) programs provide for jobs, services and skills which add to productivity and reduce welfare costs. The Economic Development Administration focuses federal dollars on projects in distressed areas that provide needed facilities and public infrastructure that complements local and private investments.

The cuts in the energy programs are in direct conflict with the need to break OPEC's stranglehold. The transportation program cutbacks will cause service cutbacks that will result in increases in energy consumption.

Mr. Chairman, we have attached a program-by-program description and analysis of the potential effect of the Administration's budget reduction proposals on people, jobs and the economy. We would appreciate if that analysis were made part of the record.

We believe that the size, and shape of the Administration's tax proposal is wrong, for we do not believe that business and wealthy individuals have been carrying a disproportionate share of the nation's tax burden.

Despite the facade of equity implied by the 10 percent per-year-for-everyone label, the tax cut overwhelmingly benefits high income individuals, and provides no cut at all for some 15 million low wage workers whose Social Security taxes have increased and who will be the first line victims of the budget cutting proposals, and shortchanges those in the middle.

The average worker in the private sector, who, according to the Bureau of Labor Statistics earns about $12,000 a year, would receive a first year cut of $128 if single; but only $92 if supporting a family of four.

A family at the national median of approximately $20,000 would receive $228. At twice the national median ($40,000) the cut amounts to $648 -- almost 3 times as much. At $100,000 the cut is $1,840 -- eight times as much.

Looked at another way, the Administration's three-year program would increase the after tax (Federal income and Social Security) income of a family earning:

$ 5.00	per hour	by	1.2	percent
6.00	"	"	1.9	"
10.00	"		3.4	"
12 00	"	"	3.9	"
15.00	"	"	4.4	"
25.00	"	"	5.4	"
50.00	"	"	9.2	"

Mr. Chairman, I know of no trade union leader who would negotiate such an agreement and ask for ratification based on its equity.

According to the estimates of both the Administration and the Joint Committee on Taxation nearly 30 percent of the benefits of the tax cut will go to those with incomes of $50,000 and over -- the top 5 percent of the nation. When fully effective, the average cut for this group will be $5,669. The remaining 95 percent of the population will receive an average reduction of $743.

The Administration's depreciation proposal amounts to a rapid and arbitrary speed-up in depreciation write-offs which would render the concept of business income for income tax purposes meaningless. Huge revenue losses would result and the corporate contribution to the costs of government would be cut by over one-third.

By 1986, according to the Administration's budget projections, the corporate income tax will account for only 7.6 percent of budget receipts. In 1960, the comparable figure was 23 percent and currently it is 11 percent.

In addition to shifting even more of the nation's tax burden away from business and the wealthy, the proposal would distort business investment decisions and change relative tax burdens. Larger, more prosperous, capital intensive firms would reap huge benefits while smaller, labor intensive firms would benefit very little. Healthy, growing corporations would receive tax bonanzas whether they need them or not and the competitive position of smaller firms would be further diminished.

Because of the across-the-board nature of the proposal, and the unfocused manner in which the benefits would be distributed, huge amounts of foregone revenue would end up subsidizing investment that would take place anyway and providing added cash to buy up other companies, increase dividends, invest overseas, speculate, or to finance shutdowns and relocations that destroy jobs and blight local communities.

We should also like to point out that this depreciation speed-up proposal (as well as most others) is justified as a means to correct for inflation's impact on the value of depreciation write-offs. According to that argument annual depreciation deductions during periods of high inflation do not compensate for the cost of replacing the asset. But, the Administration's proposal does not even meet the so-called "problem." The write-offs would be faster but any relationship to replacement cost or the rate of inflation would be purely accidental.

The only certainty is that corporate cash flow will increase and federal revenues will diminish. How much of the additional cash flow will go to productive, economy building investment will be determined behind the closed doors of corporate board rooms. In a major study released by the Treasury on the effects of such tax policies on investment, the authors, R.S. Chirinko and Robert Eisner of Northwestern University noted that:

> "We found little evidence that a dollar of lost tax revenues from 10-5-3 or the investment tax credit would ultimately gain more than 40¢ in added investment. It would be more cost-efficient to have the government buy the new plants and equipment and give them to business."

We see no justification, particularly in this time of budget slashing and proclaimed need for austerity and sacrifice, to throw as much as $60 billion a year in federal tax cuts to the nation's corporations and their stockholders and wait and hope that this largess will trickle down to workers and consumers in the form of needed jobs and more goods and services at reasonable prices.

Rather, we feel the Congress should evaluate the array of tax expenditures already in existence. Provisions such as deferral of taxes on overseas profits, the oil depletion allowance, foreign tax credits, investment tax credits and the like have all been justified as investment incentives. They should be examined to determine if the economy is receiving full and fair value for what is lost in tax revenue.

We believe that such an examination will reveal a huge source of untapped revenue and demonstrate that the economy does not need more of such misguided across-the-board efforts.

On February 19, 1981 the AFL-CIO Executive Council summed up the Administration's economic program as:

> "...a high-risk gamble with the future of America. Workers and the poor take the lion's share of the risk. The only sure winners are the wealthy, whether they are individuals or corporations.
>
> "It is a gamble that has not paid off in the past, and one the nation cannot afford to take."

At the same time, the Council took note of the challenge to present an alternative, "which offers a greater chance of balancing the budget, reducing and eliminating inflation, stimulating the creation of jobs and reducing the tax burden."

A plan which meets all those challenges was developed by the Executive Council. The full text of the Council's statement and the program is appended to our testimony along with a description of the AFL-CIO individual and business tax proposal.

The program we recommend would deal specifically, effectively and equitably with the causes of inflation and economic weakness. It is firmly based on the proposition that any austerity that may be required to fight inflation is shared on the basis of ability to sacrifice.

This requires policies that:

1) Reduce interest rates through selectively controlling and targeting funds and credit;

2) Directly attack the specific causes of inflation -- particularly energy prices;

3) Reduce unemployment through targeted public and private sector job creation and training programs; and

4) Reduce taxes in a manner which concentrates individual tax relief on those who need it the most and cut business taxes in a manner which will demonstrably help to meet productivity investment and reindustrialization goals.

We do not pretend that such a path is the quickest way to a balanced budget. We are, however, firmly convinced that it is the surest, the fairest and the most enduring route.

Lastly, Mr. Chairman, on February 27, the AFL-CIO participated in the formulation of a national coalition to oppose the budget cuts proposed by the Administration. At that meeting were representatives of over 150 organizations which adopted a resolution pledging to "fight against the unnecessary and unwise destruction of social and economic advances achieved in the past 50 years."

The AFL-CIO is proud to be a part of that coalition and we are working with it to achieve our common goals. The statement adopted by the coalition at its founding meeting is attached.

THE ADMINISTRATION PLAN

AFL-CIO News
Vol. XXVI—No. 13 March 28, 1981

The Threat to Jobs and Social Progress

The AFL-CIO has long maintained that the federal budget must be based on a careful determination of the nation's needs and the federal government's responsibility in meeting those needs. Currently, these needs and responsibilities are being ignored and preempted by a combination of honest misunderstandings of the role and function of government; exaggerated conceptions of government growth, influence or waste; and simplistic notions that all of the nation's problems would go away if the budget were balanced and our government would simply spend less, tax less and protect less.

The budget proposed by the President for fiscal 1982 is not the usual compendium of expenditures, revenues and proposals that reflect the nation's needs and circumstances.

It will result in the loss of 1,200,000 jobs. And it will have multiple negative effects on the entire U.S. economy.

It adds up to a massive attempt to reshape and restructure programs that have been devised, proposed, carefully considered, enacted by the Congress, deliberately funded, checked and reviewed as is provided for under the nation's system of governance.

It proposes revisions in law without the benefit of careful, prudent consideration and a short-circuiting of the appropriate legislative process of deliberation and oversight.

It is based on economic theories that have no foundation in fact, defy logic and ignore compassion.

The AFL-CIO does not believe that this nation has been too generous in helping the poor, the disadvantaged and the unemployed.

We do not believe the nation has been too ambitious in revitalizing its cities, enhancing educational opportunities, improving transportation or meeting its energy problems.

We do not believe the nation has been overzealous in protecting its environment, its natural resources, its consumers or its workers.

And, we do not believe the tax structure overburdens those with wealth and power and treads too lightly on everyone else.

The AFL-CIO Executive Council called the President's program . . . "a high-risk gamble with the future of America" with workers and the poor taking the lion's share of the risk.

This report, produced by the AFL-CIO Dept. of Economic Research, highlights the impact on jobs and people of the reductions proposed by the Reagan Administration in the fiscal 1982 budget.

Jobs and Training

The most direct and greatest impact of the Reagan Administration Budget in creating unemployment would occur in the jobs and training programs. Terminations of various programs under the Comprehensive Employment & Training Act (CETA), youth employment and training programs, and National Endowments for the Arts and the Humanities would abolish opportunities for the training and entry experience employment for hundreds of thousands of people who would be added to the number of unemployed.

COMPREHENSIVE EMPLOYMENT & TRAINING ACT (CETA)

Budget Cut: $3,600 million

Job Loss: 340,000

CETA Titles II D and VI would be terminated. These programs provide training and public service jobs in state and local government agencies for workers on welfare or who have been unemployed at least 10 weeks and whose family income was below $10,000. About 340,000 workers are currently employed in such programs. These jobs would be terminated by the Reagan Administration proposal and the workers would not be eligible for unemployment benefits because of recent changes in the law. Many would be forced on welfare. A sizable part of the budget cut would be transferred to state and local budgets. This is on top of cuts in the '81 CETA budget which will cost many more jobs.

YOUTH INITIATIVE—CETA GRANT CONSOLIDATION

Budget Cut: $806 million

Job Loss: 160,000

The Administration is withdrawing the youth education, training and employment program, and youth initiative proposed in the Carter January 1981 budget. The youth initiative was intended to help needy junior and senior high school students learn the basic academic and employment skills necessary to find jobs. The Administration is proposing a consolidation of youth programs into a general purpose CETA grants resulting in a reduction in fiscal 1982 of $670 million in outlays from the January levels.

NATIONAL CETA PROGRAMS

The Administration recommends a $100 million or 50 percent cut in Special National Programs and Support Services under CETA's Title III. Title III is a source of assistance to groups with serious disadvantages in the job market—minorities, veterans, women, the handicapped, migrant workers and native Americans. It also assists on the job training programs operated by such national groups as the Urban League, the Human Resources Development Institute, and some 20 international unions for the benefit of disadvantaged individuals, as well as apprenticeship outreach programs that have played a critical role in creating opportunities for minorities and females in the skilled trades.

YOUTH CONSERVATION CORPS

Budget Cut: $60 million

Job Loss: 2,000

This Administration proposes to phase out the Youth Conservation Corps of the Dept. of Interior by the end of 1981. This program provides summer jobs on public lands for youths age 15 to 18. It gives them environmental training and jobs.

YOUNG ADULT CONSERVATION CORPS

Budget Cut: $179 million

Job Loss: 18,000

This program would be terminated. It provides employment to youths age 16 to 23 in such work activity as flood control, park maintenance and forestry on public land.

NATIONAL ENDOWMENTS FOR THE ARTS AND THE HUMANITIES

Budget Cut: $87 million

Outlays for these programs would be cut by about $87 million in 1982; budget authority would be cut by nearly 50 percent. They provide grants to state and local agencies, cultural institutions, organizations and individuals to encourage creative efforts, enhance access to the arts, support art institutions and maintain the artistic heritage of different cultural and ethnic groups. The Endowment for the Humanities provides support to promote understanding and teaching of the humanities. The Reagan proposal cuts in half the support for these programs, which help dedicated and talented people enter into cultural and artistic pursuits.

LABOR ENFORCEMENT PROGRAMS

The Administration is proposing that there be reductions of from 6 to 9 percent in the full-time permanent employment levels of agencies that regulate labor standards and workers health and safety. These cuts would reduce employment levels for Fiscal Years 1981 and 1982 from Dec. 31, 1980, levels. The inspectors of the Occupational Safety & Health Administration would be reduced by 250 or 9 percent over two years. The Mine Safety & Health Administration would be reduced by 6.6 percent. The Employment Standards Administration would be reduced by 300 employees or 6.1 percent.

The Administration also proposes reductions of 10 percent in the Equal Employment Opportunities Commission, 7 percent in the Federal Mediation & Conciliation Service and 2 percent in the National Labor Relations Board.

STATE EMPLOYMENT SECURITY AGENCIES

Budget Cut: $150 million

Job Loss: 5,000

Grants to states to help unemployed workers find jobs will be reduced by $150 million in 1982 and further reductions made in subsequent years. The aim is to reduce staffing levels from the present 30,000 to less than 25,000 in the state agencies, a cut of 17 percent.

Transportation

Transportation—by road, rail, air, and water—is of central importance to the nation's "infrastructure." Federal government programs—mainly centered in the Dept. of Transportation—supply money to the states to help build highways and promote highway safety; provide assistance to railroads; provide grants and subsidies for urban mass transit systems, and assist the construction of airports and ocean-going merchant ships. The National Railroad Passenger Corp. (Amtrak), supported mainly through federal financing, is the nation's most important supplier of intercity rail passenger service. Consolidated Rail Corp. (CONRAIL) receives federal subsidies for [illegible] freight and commuter trains in the [illegible] and Midwest. The total re[illegible] outlays for transportation is $1.7 [illegible] about 5 percent. Job losses prob[illegible]

FEDERAL HIGHWAY CONSTRUCTION

Budget Cut: $421 million

Job Loss: 44,000

Current outlays would be reduced by 5 percent, and the Reagan Administration proposal would cut 27 percent from budget authority for federal highways. This would result in a $2 billion reduction in highway construction. Ten percent of the Interstate system needs resurfacing, many bridges require rehabilitation and new area developments demand increased road capacity. Shifting responsibility to state and local governments would require about a 2-cent per gallon increase in state gasoline taxes. If highway construction is curtailed by $2 billion, 44,000 man-years of work would be lost.

MASS TRANSIT

Budget Cut: $420 million

Job Loss: 33,000

A 15-percent cutback ($420 million) is proposed in mass transit capital outlays, accompanied by a 35-percent ($1.3 billion) reduction in budget authority. Grants for new construction would be discontinued entirely after 1982. A $1.3-billion cut for construction would mean a loss of about 33,000 man years of work. Operating subsidies would not be reduced in 1982 but would be entirely phased out by 1985.

Budget Coalition

The AFL-CIO is working with more than 185 national organizations in a Budget Coalition pledged to fight against the "unnecessary and unwise destruction of social and economic advances achieved in the past 50 years." The Budget Coalition can be contacted at 202-637-5080.

AMTRAK

Budget Cut: $304 million

Job Loss: 10,000

Amtrak train subsidies would be reduced by nearly one-third in 1982. Fares would be increased and the financial burden shifted to passengers or state governments. Certain trains will be eliminated, hurting the communities in less populated areas. As Amtrak equipment has been improved on some routes, a greater capacity ratio has been achieved. This cut would allow the deterioration of the most efficient long-distance transportation and the fixed and rolling capital that is already invested.

LOCAL RAIL SERVICE

Budget Cut: $190 million

Job Loss: 2,300

Local Rail Service Assistance Grants would be cut by 40 percent. These provide subsidies to cushion shippers against rail line abandonments. No additional budget authority would be provided for the program. Areas in midwestern states and Texas and Oklahoma would be most affected by higher shipping costs or abandonment of rail service. CONRAIL subsidies would be reduced in 1982 and terminated thereafter. Substantial track abandonment and ultimate dismemberment of CONRAIL is the likely outcome.

NORTHEAST RAIL CORRIDOR

Budget Cut: $155 million

Job Loss: 2,000

Outlays on improvement of the Northeast Rail Corridor would be reduced by one-third with a resulting loss of 2,000 jobs. Railbed improvement would lead to improved freight handling, more passenger traffic and a reduction of subsidies required for railroad operations.

AIRPORT CONSTRUCTION

Budget Cut: $50 million

Job Loss: 6,000

A reduction of 8 percent is proposed in [illegible] the airport construction program. There would also be a $300-million cut in budget authority for airport expansion and improved safety.

MARITIME SHIP CONSTRUCTION

Reduced levels of subsidy of construction of new privately-owned commercial vessels in ocean foreign commerce would result in a $40 million cut in 1982. Budget authority is reduced by $107 million leading to continued low-level of support for modernization and expansion of the U.S. merchant fleet.

Education

Major federal education support programs would be sharply reduced. Through proposed consolidations and cutbacks of programs, there would be reduced outlays for Elementary & Secondary Education Grants, Vocational Education, School Assistance in Federally Affected Areas and Student Loan Assistance programs. Education activities at all levels, from elementary through higher levels, would suffer serious financial setbacks.

ELEMENTARY & SECONDARY EDUCATION GRANTS

Budget Cut: $1.1 Billion

Consolidation would cut the total funds by $1.1 billion in 1982 and $1.7 billion in 1983, or 27 percent of the projected budget. All or part of 44 federal elementary and secondary education assistance programs would be reduced to two block grant programs. Localities would no longer have to provide specific educational activities and services, such as special education for the handicapped and adult education. The requirements for matching funds by localities would be eliminated. This proposal would reverse hard-won laws to gain educational equity for the nation's young people, permitting state and local agencies to ignore the needs of minorities and disadvantaged. Budget authority would be cut by $1.5 billion in 1982, and states and localities forced to assume increased education costs in their budgets.

STUDENT ASSISTANCE

Budget Cut: $230 million

A $230 million reduction is proposed in 1982 for higher education assistance to students and parents. The amount of discretionary income for Pell Grants that families must contribute to the support of a student has been increased and a $750 self-help contribution from students going to college is now required. The new parental loan subsidy will be eliminated.

Guaranteed student loan changes would push out of college an estimated one million students, or 53 percent of those currently benefitting. This program has been frozen until final details of the cuts are worked out. The total cost of attending public colleges in 1981 was $2,500 for residents and $3,800 for non-residents.

STUDENT LOAN MARKETING ASSOCIATION

Off-budget Cut: $1,400 million

The Reagan Administration proposes to eliminate access of the Student Loan Marketing Association ("Sallie Mae") to the Federal Financing Bank. This would bring about a drastic curtailment in Sallie Mae's efforts to assist student loans. "Sallie Mae" provides a market in which banks and other commercial lenders can sell their guaranteed loans and helps to free private capital for further student loans.

SCHOOL ASSISTANCE IN FEDERALLY AFFECTED AREAS (IMPACT AID)

Budget Cut: $450 million

The number of districts receiving impact aid in 1982 will be reduced from approximately 3,900 to 330. Funds will be reduced by 45 percent. This money is vital to support schools in communities with large federal installations which do not pay property taxes.

VOCATIONAL EDUCATION

Budget Cut: $200 million

The $200 million cut in 1982 outlays is nearly one-fourth of the funds available for vocational education which is designed to improve the job skills and employability of young people. The vocational education program dates back to 1917 and needs expansion, technology and modern equipment.

Commerce, Credit And Housing

Hundreds of millions of dollars in outlays as well as billions of dollars in budget authority would be cut from programs in these activity areas. Major programs involve housing finance, rehabilitation and new construction, Small Business Administration and National Consumer Cooperative Bank lending, economic development and rural electrification.

Unfair Cuts from Untested Theory

The measures advocated by the Administration are inequitable, unfair and short-sighted. They are based on an untested theory; unrealistic projections and questionable logic.

Budget cuts in income-support programs ignore the harm that befalls millions of Americans and will result in further shrinking purchasing power.

Budget cuts in alternative energy programs ignore the recently-learned lesson that the nation cannot be dependent upon a single source of energy or a single group of suppliers, be it a cartel of countries or a cartel of businesses.

Budget cuts in urban development, transportation and essential municipal services ignore their integral role in building the nation's economic competitiveness by providing the base for reindustrialization.

—AFL-CIO President Lane Kirkland, Mar. 4, 1981, to the House Budget Committee

ECONOMIC DEVELOPMENT ADMINISTRATION (EDA) AND REGIONAL DEVELOPMENT COMMISSIONS

Budget Cut: $481 million

Job Loss: 116,000

Programs of EDA, regional commissions and the Appalachian Commission programs would be terminated. This would greatly reduce economic development in some of the most depressed areas. Recent EDA program experience suggests that its loans and grants result in the creation of about 116,000 jobs in eligible areas by triggering private capital investment. Total investment is several times the EDA contribution as private funds are induced in building plants and starting new businesses.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

There is no significant change in GNMA (below market interest rate) housing finance outlays for 1982. However, it is proposed that after making mortgage purchase commitments in 1982 to purchase eligible low-income housing mortgages for projects already under development, the "tandem plan" program for such mortgages would be discontinued. If market interest rates remain at high levels, the absence of tandem plan financing would mean a phase-out of federally subsidized low-income rental housing, which would leave many families ill-housed and add to construction unemployment.

FARMER'S HOME ADMINISTRATION

Budget Cut: $105 million

Job Loss: 41,000

Outlays would be reduced by $105 million or 7 percent in 1982. New loan commitments by three funds administered by the FmHA would be cut many times that amount. The Agricultural Credit Insurance Fund which makes and guarantees loans for the purchase and operation of family farms and provides disaster loans, would have its loan commitment authority cut by $1,139 million in 1982 in a gamble on a reduction in natural disasters.

The Rural Housing Insurance Fund makes and guarantees subsidized loans to low- and middle-income home purchasers and developers of rental property in rural areas who cannot get financial assistance from other sources. The Rural Development Insurance Fund makes loans related to water and waste disposal and the development of rural business and community facilities, including fire and rescue services, health care, transportation and community, social, cultural and recreational facilities.

These programs are needed to stem the departure to urban areas of rural residents [illegible] growth and development. These cuts would result in a 1982 [illegible] $[illegible] million in home financing and $[illegible] for community development, representing losses of about [illegible] man-years of work. In total, loan [illegible] would be cut by $2,935 million, greatly setting back economic development, provision of housing, family farm operations and disaster relief in rural areas.

SMALL BUSINESS ADMINISTRATION

Budget Cut: $99 million

Outlays by the Small Business Administration in 1982 would be reduced about $1[illegible] million for business loans and $16 million for technical assistance. More significant would be a reduction of $1.5 billion in loan guarantee commitment authority. SBA makes and guarantees business loans and provides technical assistance for newly developing small business, giving special attention to minority-owned business. The proposed cutbacks would decrease job creation for which small business is a major source, and minority-owned businesses would be particularly affected.

NATIONAL CONSUMER COOPERATIVE BANK

Budget Cut: $133 million

The entire $133 million of outlays proposed for 1982 for the National Consumer Cooperative Bank would be eliminated. This action would close a source of financing for cooperatives that was established about a year ago and is just getting started. Many areas in which consumers could benefit from formation of cooperatives, such as in housing, day care centers for working mothers, and prepaid medical care would not be supported.

HUD REHABILITATION LOAN FUND

Budget Cut: $199 million

Job Loss: 4,000

The HUD rehabilitation loan fund would be terminated, 1981 budget authority rescinded and no funds authorized for future years. Providing below-market interest rate federal loans to rehabilitate older housing and some commercial properties is vital to urban areas. The loans are used mostly to help low-income homeowners, conserve older properties and neighborhoods and thus reduce the need for new construction expenditures. Termination of this program would lead to a net reduction of rehabilitation activity, a net loss of housing and more [illegible] home prices and rents. It would also mean about 4,000 man-years less of construction employment.

RURAL ELECTRIFICATION ADMINISTRATION

Budget Cut: $1,152 million

Job Loss: 158,000

Loan guarantee commitments for rural electric cooperatives would be reduced by $5.5 billion. The Reagan Administration would stop origination of REA guaranteed loans by the Federal Financing Bank to electric cooperatives and to telephone companies and cooperatives. This would result in increased production costs for farmers and higher prices of farm products that would add to inflation. A slowdown in rural utility construction would also add to unemployment.

SUBSIDIZED HOUSING

Budget Cut: $138 million

Job Loss: 51,000

The Administration proposes to cut outlays for 1982 rent subsidies by $119 million, increasing rental costs of low-income tenants. In addition, cuts of $8.7 billion are proposed in program level authorization, which would reduce support of new units and the leasing of additional existing units. Instead of supporting a total of 260,000 units in fiscal 1982 as under the Carter Budget, there would be budget authority for only 175,000 subsidized units. Instead of authorizing 130,000 new units, there would be only about 79,000 new units. This reduction of 51,000 new units would mean the loss of about 51,000 man-years of work.

PUBLIC HOUSING MODERNIZATION

Budget Cut: $500 million

Job Loss: 13,000

The program authority to modernize and conserve the stock of low-income public [illegible] fourth or by $500 million in 1982. This is justified by the Administration on an assumption that there will be a reduction of inflation-caused increases in operating costs for public housing. For the longer run, it will mean further deterioration of a valuable publicly-owned asset. For 1982, the $500 million cutback in the program level will mean a loss of approximately 13,000 jobs.

Write Now

Every American will feel the impact of the President's budget cuts if they succeed.

More than 1.2 million jobs will go down the drain.

This massive dismantling of federal programs and jobs can be stopped if Senators and Representatives are urged by the voters back home to oppose in every way they can the destruction of programs detailed in these four pages.

Write now, while this issue is before Congress. Write to your Senators and Representative, c/o U.S. Congress, Washington, D.C.

Natural Resources And Environment

Fiscal 1982 outlays for the natural resources and environment function would be reduced by about $2 billion or 14 percent from the level of the budget proposed in January through a variety of reductions, including water resource construction and municipal waste treatment grants. The budget revisions propose a moratorium on Federal land purchases and elimination of major grant programs for recreation land acquisition and development and historic preservation.

WATER RESOURCE DEVELOPMENT

Budget Cut: $230 million

Job Loss: 2,000

The Administration proposes a 15 percent reduction in planned construction for water resources programs, primarily involving recreation area, flood control and irrigation deliveries. About one-fourth of all projects would be delayed. Funding would be eliminated for the Water Resources Council and the Office of Water Research & Technology.

WATER PURIFICATION

Budget Cut: $290 million

Job Loss: 91,000

The Administration proposes to reduce funds for the municipal waste treatment grant program at a time when water supply problems are becoming critical in many regions of the country. This would cut budget outlays $290 million and budget authority $3.7 billion in 1982, severely crippling the program for years to come.

Energy

Energy research and development programs outside the nuclear area and conservation programs would be sharply cut back by the Administration. These cuts would seriously retard the nation's efforts to reduce reliance on imported oil and to deal with hardships due to price increases and supply disruptions.

SYNTHETIC FUELS SUBSIDIES

Budget Cut: $789 million

Job Loss: 91,000

Outlays of $263 million for fiscal 1981 would be rescinded and $789 million for fiscal 1982 would be cut. The Administration would eliminate nearly all direct subsidies for a half-dozen major synthetic fuels projects supported by Dept. of Energy, transferring them to the Synthetic Fuels Corp., which may or may not provide loan guarantees. This would rescind Synthetic Fuels Corp. funding support for a proposed TVA coal gasification plant, and other demonstration projects that have been approved. The cuts would set back the construction of large-scale synfuels production capacity by several years and would discourage a number of investments in large-scale synfuels production. These subsidies would have assisted at least $4.2 billion in plant construction in 1982 and 91,000 man-years of work.

OTHER ENERGY SUPPLY PROGRAMS

Budget Cut: $196 million

A one-forth reduction in outlays is proposed. There would be significant reductions in funds for research and development for geothermal, hydropower, electric energy systems and energy storage systems. The geothermal loan guarantee program would be terminated. Funds would be slashed for research and demonstration projects to analyze health and environmental effects of different energy policies and programs. Energy impact assistance, badly needed by coal and oil shale development "boomtowns," would be eliminated. Uranium resource evaluation field work needed to assess the availability of domestic uranium reserves would be phased out.

SOLAR ENERGY & ENERGY CONSERVATION BANK

Budget Cut: $134 million

Job Loss: 2,700

The Solar Energy and Energy Conservation Bank program, administered by HUD, would be terminated. It promotes the use of passive solar design features in new residences and active solar systems for new and existing homes and buildings. The energy conservation subsidies are primarily for low- to moderate-income households.

SOLAR ENERGY

Budget Cut: $300 million

Job Loss: 2,500

A 69-percent cut would be made in solar research, development, and demonstration projects. This, combined with the cut of the solar bank, would cripple an important alternative energy source.

ENERGY REGULATION

Budget Cut: $179 million

Scheduled for elimination are the coal conversion program requiring utilities to shift to coal, programs that help state public utility commissions review utility rate reforms and conservation investments, state grants for emergency preparedness planning, and emergency gasoline rationing.

LOW INCOME-ENERGY ASSISTANCE

Budget Cut: $390 million

The Administration would fold this program in with several others and cut total funding by about 27 percent. The low-income assistance program was funded at $1,850 million in 1981. A 27-percent cut would amount to $390 million. The program helps poor people pay their heating bills, using a portion of the windfall profits tax to alleviate the impact of oil deregulation.

NUCLEAR RESEARCH AND DEVELOPMENT

The Energy budget contains an additional $200 million for nuclear research and development to get the Clinch River Breeder reactor program under way.

FOSSIL ENERGY PROGRAMS

Budget Cut: $321 million

Job Loss: 4,600

Research and development in fossil fuels would be cut in half, including projects in coal liquifaction and gasification, oil shale and tar sands. An estimated 4,600 jobs could be affected.

ALCOHOL FUELS BIOMASS ASSISTANCE

(Dept. of the Treasury Administers)

Budget Cut: $122 million

Support for alcohol fuels and biomass energy would be terminated.

ENERGY CONSERVATION

Budget Cut: $442 million

Job Loss: 17,000

Energy conservation programs would be cut by 59 percent. The Administration would rely on accelerated oil and gas price decontrol to induce conservation. Programs affected include technology development for energy from urban waste, more efficient consumer products and improved automotive engines and industrial processes. Funding would also be eliminated for low-income home weatherization assistance, which alone would cost 12,000 jobs.

Income Support

The Reagan Administration is proposing a wide range of budget reductions that would reduce significantly the Federal government's level of support for the income security of its citizens.

FOOD STAMPS

Budget Cut: $2,304 million

The Administration proposal would cut food stamps by more than 18 percent. The program provides economically disadvantaged Americans an average of little more than $1 a day—38 cents per meal—for food. Ninety percent of the recipients have incomes below the poverty line, 80 percent are children, and 13 percent are elderly or disabled. Of the 22 million individuals receiving such aid nearly 15 million need it to supplement their meager benefits from AFDC (Aid to Families with Dependent Children) and SSI (Supplemental Security Income).

Unless an additional $1.4 billion is appropriated for the current fiscal year, the entire program will collapse by July. Cuts would include lower benefits for low-income families with children receiving free school meals—43 percent of food stamp recipients—a program designed to supplement, not duplicate, food stamps. Escalating fuel and housing costs would no longer be figured into entitlement formulas, seriously hurting the elderly and working poor families who use food stamps. Other measures would reduce or eliminate benefits to the working poor and deny benefits to the newly unemployed or those whose unemployment insurance has been terminated.

CHILD NUTRITION

Budget Cut: $1,530 million

The Administration proposes to cut by over 40 percent programs that provide school lunches and breakfasts, meals at day care centers, summer programs and nutritional supplements to low-income pregnant and nursing women and infants at nutritional risk. The official budget reduction is estimated at approximately $1.5 billion, but authoritative estimates show that $2 billion is more accurate. The amount of the subsidy varies with family income. The cuts will have a particularly severe effect on poor children attending inner-city schools.

SOCIAL SECURITY

Budget Cut: $2,520 million

The Administration would cut disability insurance by 3 percent for 1982, restricting benefits or removing eligibility altogether for 55,000 now receiving these benefits, eliminate the social security minimum benefit affecting 1.5 million beneficiaries, eliminate the lump-sum death benefit for about 700,000 deceased workers without a surviving spouse or child, and phase out benefits for surviving children who are full-time students, age 18 through 21. Some 200,000 students would lose benefits immediately and another 560,000 would be cut off over four years. About three million persons would lose benefits altogether or undergo cutbacks in benefit levels. These cutbacks of social security protection provisions for workers and their families would be most harmful to widows, the disabled, the young and the poor.

AID TO FAMILIES WITH DEPENDENT CHILDREN

Budget Cut: $636 million

The Administration proposes to cut Aid to Families with Dependent Children (AFDC) by about one-sixth. AFDC provides monthly payments ranging from $29 a month per person in Mississippi to $125 a month in California to 10.7 million individuals, 7.4 million of whom are children. While proposed cuts in other programs, including CETA and unemployment insurance, will force large numbers of people to seek welfare assistance, AFDC will also have been reduced. Mothers on AFDC with children 3 years of age or over would be forced into part-time make work jobs (so-called "workfare") in which they will receive no wages but will simply work off their welfare payments.

Generous to Whom?

We do not believe that the nation has been too generous in helping the poor, the disadvantaged and the unemployed. We believe the Administration's proposal is too generous in supporting the wealthy and the powerful.

—AFL-CIO President Lane Kirkland, Mar. 4, 1981, to the House Budget Committee.

The Budget estimate of the cut is apparently a gross understatement. HHS estimates the cut at about $1.2 billion.

MEDICAID

Budget Cut: $964 million

A cut of 4 percent would be imposed on Medicaid, the health program most directly targeted to the needy. More than half those eligible for its health services have incomes below the poverty level of about $3,660 for a single person and $7,400 for a family of four. If Medicaid is slashed, the inability of the poor to pay for health care could increase chronic illness, mortality and disability, particularly of children. This could affect 22 million persons now receiving Medicaid.

NATIONAL INSTITUTES OF HEALTH

Budget Cut: $73 million

There is a $73 million reduction in the NIH budget base for 1982, involving a broad spectrum of program cuts.

The leadership of the United States in advances in basic biomedical knowledge is recognized throughout the world. Almost all this basic research is funded by the National Institutes of Health. Privately funded research cannot be expected to finance this research.

SOCIAL SERVICES

Budget Cut: $1,836 million

The Administration's proposal would cut 25 percent from the amounts available in programs to provide life sustaining services to the aged, blind, disabled, poor and children. Included in the consolidation would be the activities presently carried on by local agencies funded by the Community Services Administration, to make the poor self-sufficient, such as job training and instruction on food and nutrition. The Administration would give states discretion as to how to distribute the remaining funds, eliminating all federal minimum standards and doing away with any accountability by states as to how the federal funds are used. State and local governments would be forced to assume the entire burden for increased caseloads and future inflation.

NATIONAL INSTITUTE OF OCCUPATIONAL SAFETY & HEALTH

Budget Cut: $27 million

A $27 million cutback would constitute [illegible] funds available to the National Institute of Occupational Safety & Health in 1982. All NIOSH training of professionals for evaluation of health hazards at the workplace would be brought to a halt, and evaluation would be curtailed along with research on toxic substances to which workers are exposed. These fund reductions would be reflected in reductions in the health, safety and lives of workers.

PUBLIC HEALTH SERVICE HOSPITALS

Budget Cut: $82 million

Since 1798 merchant seamen and their dependents have received medical care by the Public Health Service. Such services have been provided by a network of public service hospitals and clinics. During recent years this program has been curtailed from 23 to 8 hospitals. The Administration proposes to close down the remaining hospitals and clinics, which also provide care for low-income people in their areas.

A Costly Roll Of the Dice

The Reagan budget constitutes the most costly roll of the dice ever proposed for this nation by economic policymakers. On the line are the living standards of millions of working Americans, the unemployed and the poor, the opportunity for energy security and the hope of reviving the nation's industries and cities.

The Administration is gambling with the well-being of those who can ill afford to gamble in order to provide a sure winner for the wealthy who are not asked to take any of the risk.

—AFL-CIO President Lane Kirkland, Mar. 4, 1981, to the House Budget Committee

HEALTH PLANNING

Budget Cut: $45 million

The Administration proposes phasing out health planning by the end of fiscal year 1983. Though health planning is federally financed, it delegates almost complete power over the planning and development of health facilities to the states and local planning agencies, which help restrain costs by controlling duplication of facilities and equipment.

NATIONAL HEALTH SERVICE CORPS

Budget Cut: $38 million

No new scholarships for medical students would be awarded under this program, which offers tuition and living stipends in exchange for later service in areas of the country that are short of physicians. Scholarships and loans are also directed to those who intend to specialize in primary care, family practice, internal medicine or pediatrics.

UNEMPLOYMENT INSURANCE

Budget Cut: $238 million

The Administration proposes a 60-percent slash in extended unemployment insurance benefits (EB), imposing a severe hardship on 1.2 million long-term jobless workers with long and firm attachment to the labor force.

The proposed cutbacks include: (1) eliminating the national "trigger" requiring payment of extended benefits all over the country when the insured unemployment rate reaches 4.5 percent (the equivalent of a total unemployment rate of 7.5 percent or more); (2) removing EB recipients from national and state unemployment figures used to trigger EB benefits; (3) increasing the optional state trigger from 5 percent to 6 percent; and (4) denying extended benefits to anyone with less than 20 weeks of qualifying unemployment.

In addition, the Administration has proposed that all recipients of unemployment insurance benefits, regardless of their skills or experience, be forced to accept any job paying as much as the minimum wage or the unemployment benefits, whichever is higher.

Finally, ex-service members who leave the military service voluntarily after July 1, 1981 would no longer be eligible for unemployment compensation. Those who choose not to re-enlist would have no protection while they are seeking jobs.

While the official budget reduction is estimated at $238 million, official Labor Dept. estimates are that $1,456 million is more realistic.

BLACK LUNG TRUST FUND

Budget Cut: $378 million

The Black Lung Disability Trust Fund is to be cut by 78 percent. The fund compensates miners suffering from pneumoconiosis or black lung, a disabling disease caused by inhalation of coal and other mineral dust. The Reagan Administration cuts would come through much stricter eligibility requirements.

TRADE ADJUSTMENT ASSISTANCE (TAA)

Budget Cut: $1,150 million

A 77-percent cut is proposed in TAA, which pays benefits in addition to unemployment insurance to workers when increases of imports "contribute importantly" to their job losses. Benefits cover 70 percent of prior weekly wages up to a maximum benefit of $269 for 52 weeks. Workers over 60 years of age or in approved training can draw 26 additional weeks. Administration proposal would limit TAA payments to people who have exhausted U.I. eligibility, cap weekly TAA payments at the maximum U.I. amount, and limit total U.I. and TAA payments to a maximum of 52 weeks. The projected budget cuts would mean a two-thirds reduction in the weekly benefits and purchasing power of TAA recipients and a one-third reduction in the period of payments. It would reduce the benefits to below the poverty level, and greatly increase the losses from long-run unemployment for hundreds of thousands of workers.

Federal Employees

Contrary to popular belief, federal employment has been declining over the years, despite the rising number of government programs and the country's population growth. As of 1980, there were 2,161,000 federal employees and 660,000 post office employees. Of the federal employees, 29,000 were workers under special work-opportunity programs. A large portion of regular federal civilian employment, over 43 percent, is in the Dept. of Defense.

The Reagan Administration plans large cutbacks in federal civilian employment (except for Defense, which would be increased), and reductions in the federal subsidy to the Post Office. Stepped-up contracting with the private sector for needed goods and services will be encouraged. The Administration also plans changes in the "pay comparability" program that would produce smaller increases for federal workers.

FEDERAL CIVILIAN EMPLOYMENT

Job Loss: 43,100

The budget cuts in federal employment will be accomplished through program cuts and lower agency staffing levels. The cuts will fall entirely on civilian agencies, where 63,100 jobs will be eliminated from the 1982 level projected in the Carter Administration budget. However, 20,000 civilian jobs will be added at the Defense Dept., so that the net government-wide reduction would be 43,100.

PAY COMPARABILITY

Budget Cut: $300 million

The Reagan program incorporates pay comparability changes proposed by the Carter Administration, so that the cuts from the Carter budget estimates are relatively small (about $300 million), but the combined effect of Carter and Reagan proposals is very large—about $3.7 billion.

Under the Carter proposals, adjustments in the method of figuring comparability include: "Total compensation" comparisons, rather than pay rates only; adding state and local government pay in the comparisons; setting white collar pay on a locality basis; changing the blue collar wage system; reducing protection under federal premium pay laws; and introducing "pay flexibility" for management purposes. In addition, the Administration would set comparability at 94 percent of average non-federal compensation and require agencies to absorb 40 percent of the cost increase of higher salaries, rather than 30 percent. As a result the estimated pay increase for "comparability" is 4.8 percent in the Reagan Budget, as against 5.5 percent in the Carter Budget.

POSTAL SUBSIDY

Budget Cut: $250 million

Job Loss: N.A.

The Reagan Budget would cut outlays for the Postal Service by about 17 percent in 1982, producing higher costs for users and adverse effects on mail deliveries and jobs.

In addition, the amount of revenue foregone represented by the subsidy for non-profit mail would be cut $289 million. The effect would be a doubling of postage costs for non-profit organizations, effective Oct. 1, 1981.

Additional Programs

INTERNATIONAL AFFAIRS

Budget Cut: $1,198 million

Aid to poor countries through the Agency for International Development, the Peace Corps and food aid programs would be reduced about $300 million, and contributions to international funds previously committed would be stretched out for another $200 million reduction in 1982 outlays. In total, it would be a 7 percent reduction.

A 7-percent or $800 million reduction is proposed in international affairs outlays primarily through assumed lower interest rates, requiring less subsidy of Export-Import Bank loans, and through slower disbursements of such loans and of contributions to international organizations. There would also be a reduction in lending authority.

EXPORT-IMPORT BANK

Budget Cut: $236 million

This program provides credit support to promote sales of American goods and services overseas. It makes direct loans to purchasers, guarantees private loans and provides loan insurance against defaults on loans to foreign purchasers. The bank's activities are concentrated in some areas where American producers must compete against government-subsidized foreign companies, most notably overseas aircraft sales and large construction projects. The program changes would mean higher financing costs and a weaker competitive position for U.S. airplane manufacturers.

FEDERAL TRADE COMMISSION

Budget Cut: $8 million

The Administration is proposing a 40-percent staff reduction in the Federal Trade Commission by 1986 by phasing out the regional offices and decreasing the headquarters office. The FTC helps prevent the free enterprise system from being stifled by monopolistic and unfair or deceptive practices. Both the FTC's antitrust and consumer protection functions would be substantially weakened and the burden would be at least shifted to state and local government consumer agencies and other federal agencies, such as the Justice Dept.

GENERAL SCIENCE, SPACE AND TECHNOLOGY

Outlays in 1982 for activities of the National Aeronautics & Space Agency (NASA) and the National Science Foundation that are supported under this function would be cut about $600 million or 8 percent.

NASA

Budget Cut: $428 million

For fiscal 1982, there is a 7-percent reduction in funding for NASA space activities. Reductions affect the development of Spacelab, elimination of funding for the solar electric propulsion system and rescheduling of space science flight projects. There will be a deferral of projects such as the gamma ray observatory spacecraft, the Venus orbiting imaging radar project and spacelab experiments. There would also be deletion and reductions in space applications and general support activities.

NATIONAL SCIENCE FOUNDATION

Budget Cut: $209 million

National Science Foundation 1982 outlays would be cut $209 million, or 15 percent. Programs that would be reduced or eliminated would include those in science and engineering education and in the behavioral, social and economic sciences. University laboratory modernization grants would be deferred. The cuts thus would retard the development of human capital trained for scientific work and basic laboratory research.

JUSTICE

Program cuts for the Justice Dept. and legal aid programs total about $500 million, or 10 percent. The main reduction is accomplished through elimination of $312 million in outlays for the Legal Services Corp., which would disappear into the social services block grant for states. The corporation is the largest provider of legal aid for people unable to afford it. It has helped people to assert rights with respect to government programs, while assisting with rent disputes, family troubles, and creditor problems.

CONSUMER PRODUCT SAFETY COMMISSION

Budget Cut: $14 million

The $14-million cut for the Consumer Product Safety Commission would reduce its funds by about 30 percent in 1982. CPSC performs an important consumer protection function in identifying dangerous consumer products (including children's toys) developing product safety standards, and removing extremely hazardous products from the market.

Additional copies of this analysis of the impact of the Administration's planned budget cuts are available from the AFL-CIO Pamphlet Division, 815 - 16th St., N.W., Washington, D.C. 20006.

Attachment 2

Statement by the AFL-CIO Executive Council
on
The President's Economic Proposal

February 19, 1981
Bal Harbour, Fla.

The AFL-CIO agrees with the proposition that inflation must be reduced; the number of jobs increased and the unemployed put back to work; productivity improved; industrial strength restored, and federal programs made more effective and efficient.

But we cannot agree that the measures the President outlined will achieve those goals or that they meet the essential tests of fairness and equity.

His proposals require more sacrifice from those who have little, to give more to those who already have much. They substitute unrestrained market power for social responsibility and human concerns. They shortchange sound economic growth by cutting back programs to achieve energy independence, rebuild the nation's transportation system revitalize urban areas and safeguard the environment.

The President placed on us and others who cannot agree with him the responsibility of offering an alternative. The AFL-CIO has spelled out such a program that meets the nation's economic needs with fairness and equity.

Tax Policy

Americans need a change in the tax laws to alleviate the effects of inflation. At the same time, targeted business tax cuts are needed to revive the industrial base of the economy.

The President proposes to give 60 percent of his individual tax cut to the top 20 percent of the taxpayers, and over 11% to one percent of the taxpayers. The family earning $10,000 a year would get a $52 tax break in the first year. The family earning $30,000 would get a $382 tax reduction. But the family earning $100,000 would get a minimum of $1,840.

By contrast, the AFL-CIO has proposed a refundable individual tax cut of 20 percent of Social Security taxes. The family with a $10,000 income would receive a tax benefit of $134. The family earning $30,000 would get $395. At $100,000, the tax cut is an identical $395. Under our proposal, 60 percent of the individual tax cut would go to 80 percent of the taxpayers.

Highly-profitable businesses would benefit the most under the President's depreciation tax proposals. Struggling companies and newly-developing industries would benefit little, if at all. The President's unrestricted depreciation proposal could encourage industrial migration from areas of already high unemployment.

By contrast, the AFL-CIO has proposed a business tax cut designed to stimulate investment where it is needed the most. In addition, we have proposed a tax cut of 5 percent of Social Security taxes to directly reduce every covered employer's payroll costs.

Monetary Policy

The "absurd" interest rates of 20 percent, mentioned by the President, are largely a result of the same tight-money policy he said he supports. Use of that policy to combat inflation has repeatedly led to economic downturns, not the prosperity promised by the President. Another by-product of high interest rates has been large increeses in annual interest payments on the federal debt, expected to grow by more than $15 billion in the current year.

By contrast, the AFL-CIO recommends that selective credit regulations be reimposed. They would direct capital to productive investments while curbing speculation. Other advanced Western industrial countries have used selective credit regulation effectively. The brief U.S. experience with limited credit controls in the Spring of 1980 helped bring the prime rate down from 20 to 11 percent in four months, while mortgage interest rates came down from 16 to 11 percent.

Budgetary Policy

The President's proposed budget cuts, the centerpiece of his program, are both inequitable and short-sighted. He pledged to "fulfill the obligations that spring from our national conscience," but, in fact, his call for $17.5 billion in budget reductions in social programs would cut the meager incomes of the jobless and the poor.

For nearly 50 years, this country has built a network of social programs to improve the lot of the disadvantaged, provide support in times of adversity and strengthen the American economy. To destroy or weaken these programs is to weaken America.

The President, in seeking additional budget cuts, would slash an additional $24 billion by reducing social investments necessary to expand the economy. Not only would those cuts have an immediate cost of more than 1 million jobs, but they endanger the nation's long-range needs for energy security, transportation improvements, environmental safeguards and urban development.

The President relies entirely on the theory that the tax cuts he proposes will result in private financing for these necessary investments. There is little basis for this hope. Public employees will bear an additional unfair burden.

By contrast, the AFL-CIO would attack the budget deficit by reducing unemployment and cutting interest rates. A reduction in unemployment of 1 percent would cut $30 billion from that deficit.

Regulatory Policy

The President contends that the laws protecting health, safety, the environment and consumers passed in the last decade have caused "higher prices, higher unemployment and lower productivity growth." He ignores the contributions these laws have made to a higher quality of life.

In the name of business efficiency, he would let the marketplace determine if, when and how workers, buyers and natural resources are to be protected. Past experience demonstrates that the market undervalues the need for these protections.

In addition, the regulatory analyses the President initiated will increase red tape by making legal proceedings longer, more complicated and more expensive. While he calls for assessing costs and benefits, he provides no method for valuing health and safety or accurately projecting costs. Finally, by increasing the powers of the Office of Management and Budget, the government's ability to enforce protective laws as Congress intended is undermined.

* * * * * *

The President's program is a high-risk gamble with the future of America. Workers and the poor take the lion's share of the risk. The only sure winners are the wealthy, whether they are individuals or corporations.

It is a gamble that has not paid off in the past and one the nation cannot afford to take. We will, therefore, join with other concerned citizens to advance an economic program that will meet the nation's needs fairly and equitably and with true equality of sacrifice.

# # #

Attachment 3

Statement by the AFL-CIO Executive Council
on
The National Economy

February 16, 1981
Bal Harbour, Fla.

America needs economic policies that deal effectively and equitably with the causes of inflation and the weaknesses that prolong unemployment.

Such policies must base any sharing of austerity in the fight against inflation on the ability to sacrifice, and not demand even more sacrifice from those who know only austerity. They also must include adequate resources to provide needed investment in specific industrial and geographic sectors within an overall employment program.

Based on these key principles, the AFL-CIO supports economic policies that:

First, reduce interest rates. The high cost of money spreads throughout the economy and is built into the cost of all goods and services. High interest rates choke the economy and prevent expansion. High interest rates and high unemployment are the major contributors to a high budget deficit.

Second, dampen actual inflationary forces directly rather than attempting to depress demand in the hope that this generalized approach may eventually cool the causes of inflation as the entire economy is thrust into a deep freeze.

Cutting federal expenditures to balance the budget is not a cure-all for inflation. Budget cuts will not protect the economy from spiraling energy and food costs, nor will they bring down housing costs.

At a time like the present, when large portions of plant capacity stand idle and when a big segment of the labor force is unemployed, federal budget cuts will only aggravate already sluggish economic conditions. When both labor and capital resources are fully used, then a balanced budget makes sense.

Third, reduce unemployment by providing training and job opportunities for those specific population groups that have neither and encourage the rebuilding of the economy, especially in industries and geographic areas hardest hit by unemployment. The ranks of the jobless will not be diminished by undermining the wages, standards and safeguards of those who already hold jobs. Rather, there must be a policy that improves the ability of American industry to compete in the world economy by modernizing outdated plants and equipment and by modernizing outdated foreign trade policies.

Reducing unemployment is the most effective method of reducing the federal deficit. Yet, the current unemployment rate is 7.4 percent, a level that was surpassed in the post-World War II years only by the 1975-76 recession. Each one percent decline in joblessness increases federal revenues and decreases social costs a total of $30 billion. Putting one million jobless workers back to work would balance the previous Administration's proposed fiscal 1982 budget.

Fourth, use en effective combination of targeted taxing and expenditure programs to reverse the damage caused by inflation and unemployment. Individual tax cuts should be used to restore consumer buying power. Business tax cuts should be used to stimulate investment where it is needed the most. Government revenues should be used to sustain consumer spending during periods of unemployment.

A tax cut that fuels inflation by encouraging the wealthy to buy more luxuries or speculate in commodities is not an answer to the nation's economic woes. A general across-the-board business tax cut or depreciation speed-up would provide large windfalls to sectors of the economy that are already prosperous while ignoring critical industry and area investment capital needs.

Today's problems of unemployment and inflation cannot be measured by "averages" or solved by aggregate across-the-board policies. The impact of unemployment and inflation are distributed unevenly across different sectors, regions, and demographic groups. The solution to these problems, therefore, does not lie in macroeconomic policies that are applied in an unfocused manner. The nation needs to address its problems in a manner that alleviates the underlying forces pushing up inflation and unemployment.

As we have said in the past: if an overall program of price and income controls becomes necessary to fight inflation, we are prepared to cooperate provided controls are fair and equitable and applied to all prices and all forms of income.

Specifically, the AFL-CIO calls for adoption of the following program:

I. Lowering high interest rates

- Credit controls should be authorized by the President and instituted by the Federal Reserve Board. Funds and credit should be targeted to certain sectors of the economy for productive industrial development and needed housing expansion. Existing credit control procedures should be used and new tools developed to tighten credit for speculative activities and made available to productive uses.

II. Anti-inflation policies

To reduce inflation in energy:

- Maintain controls on natural gas to moderate price increases.
- Continue presidential authority to control oil prices and invoke rationing in time of need.
- Expand development of alternative sources of energy to prevent short-term and long-term shortages that artificially increase prices.
- Assist utilities to convert from high-priced oil to coal.
- Equalize utility rate structures to end the subsidy consumers are providing for large industrial users and institute peak-load pricing.
- Expand energy conservation programs, especially the weatherization of schools, hospitals, public buildings and low-income housing.
- Establish a U.S. oil import agency to purchase and distribute oil imports, thus assuring the nation an adequate supply of oil at a fair price.

To reduce inflation in housing:

- Expand the supply of low- and middle-income housing to alleviate the housing shortage that is driving up prices and rents.
- Reduce mortgage interest rates by expanding the use of so-called "tandem plans" that provide below-market interest rate mortgages for low- and middle-income buyers.
- Encourage home mortgage financing by union pension funds invested in long-term, fixed-payment mortgages guaranteed by the government.

* Discourage the conversion of rental housing structures to condominiums in tight housing markets.

* Restrict the export of logs which is causing shortage-induced domestic price increases for lumber.

To reduce inflation in food:

* Restrict the export of commodities in short supply.

* Remove restrictions on the planting of crops.

* Limit price support programs to small- and moderate-sized farms that are owned and worked by resident farm families.

* Establish a National Grain Board, similar to the Canadian Wheat Board, to handle foreign sales of U.S. grain.

To reduce inflation in health care:

* Enact hospital cost containment.

* Encourage expansion of Health Maintenance Organizations, which have a proven record of lower health care costs.

* Use cost-reducing practices, such as second opinions before elective surgery and support for health planning to eliminate duplication of costly equipment and services.

* Provide medical care for Medicare and Medicaid recipients under HMO programs using per capita payments for total health care services rather than more costly fee-for-service payments.

* Reform health insurance practices to eliminate cost-plus reimbursement of hospitals and nursing homes by using prospective reimbursement and negotiated fee schedules.

* Reform the health care system through national health insurance.

III. Reducing unemployment and rebuilding the economy.

Reindustrialization

- Business, labor and government should participate in a Reindustrialization Board. Under this Board, a Reconstruction Finance Corporation would invest public and private funds in necessary reindustrialization projects.

- The RFC should have authority to allocate $5 billion in depreciation allowances, investment tax credits, or other business tax changes targeted to where they are most urgently needed.

- The RFC should be allotted an additional $5 billion to: encourage new industries that have difficulty obtaining necessary financing; and assist older industries with special capital needs for modernization, expansion and restoration of their competitive position. The RFC should also direct its resources to specific geographic areas of the country that are most in need.

- The nation's transportation network needs to be upgraded for people and goods to move more efficiently. Railroads, highways, port facilities and airports are in desperate need of rehabilitation. Urban mass transit systems need to be extended and modernized.

- The urban infrastructure of sewers, water systems, streets and bridges needs to be renewed. Public investment of this nature would greatly improve economic efficiency and potential output of goods and services.

- There should be a thorough review and analysis of existing investment tax "incentives" in the light of reindustrialization goals. The capital gains exclusion, rapid depreciation, oil depletion allowances, and investment tax credits have all been enacted as tax "incentives" to investment. Tens of billions of federal dollars are lost through these provisions, and it is time to restudy their value to the economy.

- The multi-billion dollar tax subsidies available for overseas operations - such as the Domestic International Sales Corporation, foreign tax credits and the deferral of taxes on overseas profits are in direct conflict with national needs and restrict the availability of needed capital at home. They should be repealed. The Overseas Private Investment Corporation should also be ended, as it encourages U.S. firms to invest abroad by insuring such investments against political risks.

- The tax benefits of state and local industrial development bonds should be curtailed and integrated into the overall approach to reindustrialization.

Employment and training programs

- The unemployed men and women who cannot find jobs in the private sector should be put to work on the various public service and public works projects that expand the services and facilities needed for a healthy economy. The skills and abilities of the unemployed must be put to productive purposes and not go wasted. These programs can be targeted to increase supply and economic efficiencies in key areas, thereby moderating price increases, while reducing unemployment.

- There should be expanded training programs for adult workers and youth. Training programs should provide new job skills and lead to employment opportunities.

- Direct, targeted jobs programs tailored to the specific needs of unemployed workers are two to four times more effective in creating jobs than generalized tax cuts.

IV. Restoring Buying Power

Federal Taxes

The AFL-CIO calls for enactment of a refundable tax credit equal to 20 percent of the employee's and 5 percent of the employer's Social Security tax. Thus, the benefits would be concentrated on middle and low-income wage earners, those who have suffered the most from high inflation. It would more than offset the recent increases in Social Security taxes on workers and have no adverse effect on the financial stability of the Social Security trust fund.

Under such a tax program, a four-person family with a $12,000 per year income would receive a $160-a-year tax reduction compared with $92 under the first year of the Kemp-Roth proposal. At $25,000, the cut would be $332 compared with $305 under Kemp- Roth. At $30,000, relief is about the same, and above those levels, the maximum relief is limited by Social Security payments and, thus, would not provide the open-ended, ever-growing windfall to the wealthy that Kemp-Roth would provide.

This individual Social Security tax credit would cost the Treasury approximately $16 billion, or about half of the first-year cost of Kemp-Roth. The employer Social Security tax credit would cost the Treasury about $4 billion, and benefit employers in labor-intensive industries.

Income Support Programs

Basic income support programs for the unemployed, the poor and the elderly must be maintained and improved to restore buying power lost to inflation.

When people are jobless, a minimum level of buying power is sustained by basic income support mechanisms such as unemployment insurance, trade adjustment assistance and food stamps. When inflation is high, the elderly and the poor, who are forced to rely on government, also need their income protected by Social Security, welfare and Medicaid.

* * * *

In order to curb inflation, reduce unemployment and solve fundamental problems, the resources of the country must be redirected. Additional capital investment is needed in many, but not all industries and areas. Tax burdens should be lightened for many but not all individuals. The problems of the poor in our society must be solved, not aggravated.

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Attachment #4

AFL-CIO INDIVIDUAL TAX CUT PROPOSAL

On February 16, 1981, the AFL-CIO Executive Council issued a statement that called for:

- Enactment of a refundable tax credit equal to 20 percent of the employee's and 5 percent of the employer's Social Security tax. Thus, the benefits would be concentrated on middle and low-income wage earners, those who have suffered the most from high inflation. It would more than offset the recent increases in Social Security taxes on workers and have no adverse effect on the financial stability of the Social Security trust fund.
- This individual Social Security tax credit would cost the Treasury approximately $16 billion, or about half of the first-year cost of Kemp-Roth. The employer Social Security tax credit would cost the Treasury about $4 billion, and benefit employers in labor-intensive industries.
- The following table presents a comparison of the Reagan individual tax cut proposal to that of the AFL-CIO:

REAGAN VS. AFL-CIO

Individual Income Tax Reduction Proposals

Wage or Salary Income	Reagan Proposal* Family of Four 1981	Reagan Proposal* Family of Four 1st Full Yr.	AFL-CIO Proposal **
$ 5,000	$ -	$ -	$ 66
10,000	26	52	134
15,000	75	150	200
20,000	114	228	266
25,000	153	306	333
30,000	191	382	395
40,000	324	648	395
50,000	478	956	395
100,000	920	1,840	395

Distribution by Income Group

Income Group	Reagan	AFL-CIO
0 - $15,000	10 %	20 %
15 - 30,000	30	40
30 - 50,000	31	30
50,000 and over	29	10

* Assumes deductible expenses equal to 23% of income.

** A tax credit (refundable) equal to 20% of taxpayers 1981 Social Security Payroll Tax with equivalent reductions for public employees not covered by Social Security and those under Railroad Retirement.

Attachment #9

AFL-CIO TARGETED BUSINESS TAX CUT PROPOSAL

I. Background

On February 16, 1981, the AFL-CIO Executive Council issued a statement that called for:

1) Business, labor and government participation in a Reindustrialization Board. Under this Board, a Reconstruction Finance Corporation (RFC) would invest public and private funds in necessary reindustrialization projects.

2) The RFC should have authority to allocate $5 billion in tax expenditures targeted to where they are most urgently needed.

3) The RFC should be allocated an additional $5 billion to: encourage new industries that have difficulty obtaining necessary financing; and assist older industries with special capital needs for modernization, expansion and restoration of their competitive position. The RFC should also direct its resources to specific geographic areas of the country that are most in need.

II. Implementation

The RFC must be given substantial discretionary authority to establish criteria for industry and area eligibility and to allocate funds based on certificates of necessity.

The tools available should include:

A. Non-tax subsidies such as:

1. Loans
2. Loan guarantees
3. Interest subsidies

B. Tax subsidies such as:

1. Investment tax credits (refundable)
2. Accelerated depreciation
3. First year present value depreciation
4. Carry back-carry forward devices.

III. Targeting Considerations

In making its allocation decisions the RFC:

- Should work within a broad framework with special emphasis given to firms that fall within the basic manufacturing sector. This can be done through use of the Standard Industrial Classification (SIC) definitions.

- Emphasize investments that would take place in areas that are economically distressed based on criteria such as unemployment, poverty and/or likely to be adversely affected by relatively rapid shifts or changes resulting from plant closings, technology, government actions or demands for their products.

Other factors:

- U.S. industries where capacity problems are creating "bottlenecks."
- High risk, new U.S. industries with a high growth potential.
- Industries which are vital on national security grounds.
- U.S. firms which provide essential inputs to other industries.
- Distressed U.S. firms where bankruptcy or failure would cause severe supply problems for other basic industries and/or create dependency on foreign suppliers for essential inputs.
- U.S. firms that are competing with industries (firms) which are subsidized by foreign nations.
- U.S. firms which have substantial and demonstrable problems in meeting government imposed costs.

IV. Eligibility Considerations

The RFC should require the following in determining eligibility and allocating funds.

A firm seeking a certificate of need should:

- Present a reasonable demonstration that the aid would be used in financing net increases in domestic investment in production of plant machinery or equipment.
- Present a reasonable demonstration that the benefits result in net domestic job gains or will prevent domestic job loss.
- Present a reasonable demonstration that the resulting economic activity is compatible with the area's industrialization and development plans, needs and infrastructure.

RFC guidelines:

- Loans or guarantees or interest subsidies should not be extended unless the financial assistance applied for is not otherwise available from private lenders or from other Federal agencies on terms which in the opinion of the RFC will permit the accomplishment of the project.
- RFC should try to target benefits to firms in areas where the existing public infrastructure can be utilized.

Attachment #5

- Emphasis should be on investment that would take place in areas that are economically distressed based on criteria such as unemployment, poverty and/or likely to be adversely affected by relatively rapid shifts or changes in plant closings, technology, government actions, or demands for their products.

- The funds of the RFC should be supplemented by allocations from individual pension plan funds. Pension plans should be encouraged to set aside a portion of their plan's assets for assignment to the RFC. Pension plans today are the single largest source of funds for new investment -- their total assets amount to more than $600 billion. To assure that the interests of the pensioners are protected, the government should guarantee the invested funds.

- Anti-pirating language such as that in PWEDA of 1965 should be included viz:

  > Financial assistance should not be extended to assist establishments relocating from one area to another or to assist subcontractors whose purpose is to divest, or whose economic success is dependent upon divesting, other contractors or subcontractors of contracts theretofore customarily performed by them. Provided, however, that such limitation shall not be construed to prohibit the establishment of such branch, affiliate, or subsidiary is being established with the intention of closing down the operations of the existing business entity in the area of its original location or in any other area where it conducts such operations.

- Applicants must comply with standard nondiscrimination provisions of federal civil rights laws and federal safeguards relating to labor standards and protections such as those provided for in the FLSA of 1938 and the Davis-Bacon Act.

Attachment 6

FOR RELEASE AT 11 A.M., FRIDAY, FEBRUARY 27, 1981

Following is the joint statement of the Budget Coalition:

The organizations represented here today, and the other co-sponsors of this statement, believe in a healthy, prosperous nation and a stable, growing economy. Along with all other Americans we are disturbed by the destructive forces of inflation, joblessness, energy instability and high interest rates and we strongly support programs that can bring them under control.

Each organization represented here has studied the proposals of the Reagan Administration to reshape the budget, and it is our united belief that they will not make America healthier and, instead, could make America weaker.

These proposals do not set forth a period of belt-tightening shared by all, after which America can again grow and prosper at all levels of our society. Instead, many vital programs are marked for extinction and others will be hopelessly crippled.

We believe that something is basically wrong when programs assisting hard-pressed moderate-income working Americans and those living at or under the federal poverty level, but who presumably are not "truly needy", are decimated or destroyed to finance individual tax cuts benefiting primarily the top 20 percent of taxpayers. America's minorities, women, seniors and disabled, would be among those drastically hurt. Furthermore, cuts in Medicaid, food stamps, unemployment insurance, and other life-support programs place gaping holes in the "safety net" the Administration pledged to maintain.

We believe something is basically wrong when federal budget reductions simply shift the tax burden for essential services, such as health and human services, sewer and road construction, education, economic development and income maintenance to state and local governments. No real fiscal improvement for the nation or the taxpayer is achieved.

We believe something is basically wrong when budget cutbacks result in increased costs to all consumers regardless of their ability to pay. Federal assistance to transportation systems, utilities, construction, postal service and others would be replaced by higher fares, higher rates and higher user fees -- or higher local taxes.

We believe that this nation can find solutions to the problems of high inflation, high interest rates, high energy costs and high unemployment which will not create unfair hardship on any one group of Americans. We believe the Reagan Administration proposals will not solve these problems, but could wreak great damage to the fabric of this nation.

Today we are aligning ourselves in a national Coalition to urge that alternative and constructive solutions be proposed to these genuine and difficult problems and to carry out a fight against the unnecessary and unwise destruction of social and economic advances achieved in the past 50 years.

BUDGET COALITION STEERING COMMITTEE

Stephen Brobeck, Executive Director
CONSUMER FEDERATION OF AMERICA

Jacob Clayman, National President
NATIONAL COUNCIL ON SENIOR CITIZENS

Christine Davis, Vice Chair
NATIONAL WOMEN'S POLITICAL CAUCUS

Douglas Fraser, President
UNITED AUTO WORKERS

Richard Hatcher, Mayor of Gary, Indiana
President, U.S. CONFERENCE OF MAYORS

Monsignor George Higgins
U. S. CATHOLIC CONFERENCE

Lane Kirkland, President
AFL-CIO

Robert McAlpine, Congressional Liaison
NATIONAL URBAN LEAGUE

Marvin Meek, National Chairman
AMERICAN AGRICULTURAL MOVEMENT

Nancy Neuman, Director
LEAGUE OF WOMEN VOTERS

Leon Shull, National Director
AMERICANS FOR DEMOCRATIC ACTION

Althea T.H. Simmons, Director
NAACP (Washington Bureau)

Karen E. Spellman, Director of Programs
NATIONAL URBAN COALITION

ORGANIZATIONS SUPPORTING BUDGET COALITION

ACORN
AFL-CIO
A. PHILIP RANDOLPH INSTITUTE
AMALGAMATED CLOTHING & TEXTILE WORKERS UNION
AMALGAMATED TRANSIT UNION
AMERICAN AGRICULTURAL MOVEMENT
AMERICAN AGRICULTURAL MOVEMENT OF GEORGIA
AMERICAN COALITION OF CITIZENS WITH DISABILITIES, INC.
AMERICAN COUNCIL OF THE BLIND
AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES
AMERICAN FEDERATION OF TEACHERS
AMERICAN FRIENDS SERVICE COMMITTEE
AMERICAN JEWISH CONGRESS
AMERICAN MARITIME OFFICERS SERVICE
AMERICAN PERSONNEL & GUIDANCE ASSOCIATION
AMERICAN POSTAL WORKERS UNION
APWU POSTAL PRESS ASSOCIATION
AMERICAN PSYCHOLOGICAL ASSOCIATION
AMERICAN PUBLIC HEALTH
AMERICAN PUBLIC TRANSIT ASSOCIATION
AMERICAN VETERANS COMMITTEE
AMERICANS FOR DEMOCRATIC ACTION
ARIZONA WELFARE RIGHTS COALITION
ASSOCIATION FOR THE ADVANCEMENT OF PSYCHOLOGY
BAKERY, CONFECTIONERY & TOBACCO WORKERS INT'L UNION
B'NAI B'RITH WOMEN
BROTHERHOOD OF RAILWAY, AIRLINE & STEAMSHIP CLERKS (BRAC)
CENTER FOR COMMUNITY CHANGE
CENTER FOR COMMUNITY ORGANIZATIONS
CENTER ON SOCIAL WELFARE POLICY & LAW
CHILD WELFARE LEAGUE OF AMERICA, INC.
CHILDREN'S DEFENSE FUND
CHILDREN'S FOUNDATION
CITIZENS FOR TAX JUSTICE
CITIZENS LABOR ENERGY COALITION
COAL MINERS PAC (UMW)
COALITION FOR HEALTH FUNDING
COALITION FOR LABOR UNION WOMEN
COALITION OF INDEPENDENT COLLEGE & UNIVERSITY STUDENTS
COMMITTEE FOR NATIONAL HEALTH INSURANCE
COMMUNICATION WORKERS OF AMERICA
COMMUNITY NUTRITION INSTITUTE
CONFERENCE ON ECONOMIC PROGRESS
CONNECTICUT LABOR PRESS COUNCIL
CONSUMER COALITION FOR HEALTH
CONSUMER ENERGY COUNCIL OF AMERICA
CONSUMER FEDERATION OF AMERICA
COUNCIL OF CHIEF STATE SCHOOL OFFICERS
COUNCIL OF GREAT CITY SCHOOLS
DISABILITY ADVOCATES
ECONOMIC RESEARCH COUNCIL
ENVIRONMENTAL ACTION FOUNDATION
ENVIRONMENTAL ACTION, INC.
ENVIRONMENTAL POLICY CENTER
ENVIRONMENTALISTS FOR FULL EMPLOYMENT
EPILEPSY FOUNDATION OF AMERICA
FEDERALLY EMPLOYED WOMEN
FOOD RESEARCH ACTION COUNCIL
FRIENDS OF THE COOP BANK COALITION

FRONTLASH
FULL EMPLOYMENT ACTION COUNCIL
HOUSING ASSISTANCE COUNCIL
ILLINOIS LABOR PRESS ASSOCIATION
ILLINOIS PUBLIC ACTION COUNCIL
INDUSTRIAL UNION OF MARINE & SHIPBUILDING WORKERS
INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
INTERNATIONAL ASSOCIATION OF IRON WORKERS
INTERNATIONAL ASSOCIATION OF MACHINISTS & AEROSPACE WORKERS
INTERNATIONAL BROTHERHOOD OF BOILERMAKERS
INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS
INTERNATIONAL BROTHERHOOD OF PAINTERS & ALLIED TRADES
INTERNATIONAL CHEMICAL WORKERS UNION
INTERNATIONAL LONGSHOREMEN'S ASSOCIATION
INTERNATIONAL LABOR PRESS ASSOCIATION
INTERNATIONAL LADIES GARMENT WORKERS' UNION
INTERNATIONAL UNION OF ELECTRICAL, RADIO & MACHINE WORKERS (IUE)
INTERNATIONAL UNION OF OPERATING ENGINEERS
INTERNATIONAL UNION OF POLICE ASSOCIATIONS
INTER-RELIGIOUS HOUSING COALITION
JEWISH LABOR COMMITTEE
LABOR COUNCIL FOR LATIN AMERICAN ADVANCEMENT
LABORERS' INTERNATIONAL UNION OF NORTH AMERICA
LEADERSHIP CONFERENCE ON CIVIL RIGHTS
LEAGUE OF WOMEN VOTERS OF THE UNITED STATES
LONG ISLAND COALITION ON HUMAN SERVICES
MEXICAN-AMERICAN LEGAL DEFENSE & EDUCATIONAL FUND
MICHIGAN LABOR PRESS
MIDWEST LABOR PRESS ASSOCIATION
MIGRANT LEGAL ACTION PROGRAM
MISSOURI STATE LABOR PRESS ASSOCIATION
NATIONAL ALLIANCE FOR THE MENTALLY ILL
NATIONAL ANTI-HUNGER COALITION
NATIONAL ASSOCIATION FOR THE ADVANCEMENT OF COLORED PEOPLE
NATIONAL ASSOCIATION OF COMMUNITY HEALTH CENTERS
NATIONAL ASSOCIATION OF LETTER CARRIERS
NATIONAL ASSOCIATION OF MARKET DEVELOPERS
NATIONAL ASSOCIATION OF NEGRO BUSINESS & PROFESSIONAL WOMEN CLUBS
NATIONAL ASSOCIATION OF PUBLIC ADULT EDUCATION
NATIONAL ASSOCIATION OF RETARDED CITIZENS
NATIONAL ASSOCIATION OF SOCIAL WORKERS
NATIONAL ASSOCIATION OF THE DEAF
NATIONAL BAR ASSOCIATION
NATIONAL CATHOLIC CONFERENCE FOR INTER-RACIAL JUSTICE
NATIONAL CENTER ON THE BLACK AGED
NATIONAL CITIZENS COALITION FOR NURSING HOME REFORM
NATIONAL COMMUNITY ACTION AGENCY EXECUTIVE DIVISION
NATIONAL CONFERENCE OF BLACK MAYORS
NATIONAL CONFERENCE OF CATHOLIC BISHOPS
NATIONAL CONFERENCE OF CATHOLIC CHARITIES
NATIONAL CONSUMER LAW CENTER
NATIONAL CONSUMERS LEAGUE
NATIONAL COUNCIL OF CHURCHES
NATIONAL COUNCIL OF COMMUNITY MENTAL HEALTH CENTERS
NATIONAL COUNCIL OF LA RAZA
NATIONAL COUNCIL OF SENIOR CITIZENS
NATIONAL COUNCIL OF CRIME & DELINQUENCY
NATIONAL COUNCIL REHABILITATION EDUCATION
NATIONAL EDUCATION ASSOCIATION
NATIONAL EMPLOYMENT LAW PROJECT
NATIONAL HEALTH LAW PROJECT

NATIONAL HOUSING LAW PROJECT
NATIONAL LOW-INCOME HOUSING COALITION
NATIONAL NEIGHBORS
NATIONAL ORGANIZATION FOR WOMEN
NATIONAL ORGANIZATION OF LEGAL SERVICE WORKERS
NATIONAL PUERTO RICAN FORUM
NATIONAL REHABILITATION ASSOCIATION
NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION
NATIONAL RURAL HOUSING COALITION
NATIONAL PARENT-TEACHER ASSOCIATION
NATIONAL SCHOOL BOARD ASSOCIATION
NATIONAL SOCIAL SCIENCE & LAW CENTER
NATIONAL URBAN COALITION
NATIONAL URBAN LEAGUE
NATIONAL WOMEN'S POLITICAL CAUCUS
NAVAJO NUTRITION SELF-HELP PROJECT
NEW DEMOCRATIC COALITION
NETWORK
NEW JERSEY LABOR PRESS COUNCIL
NEWSPAPER GUILD
NEW YORK STATE ASSEMBLY IN WASHINGTON
LABOR PRESS COUNCIL OF METROPOLITAN NEW YORK
OFFICE & PROFESSIONAL EMPLOYEES INTERNATIONAL UNION
OFFICE OF HUMAN DEVELOPMENT
OHIO LABOR PRESS ASSOCIATION
OIL, CHEMICAL & ATOMIC WORKERS INTERNATIONAL UNION
OMEGA PSI PHI FRATERNITY, INC.
OPERATION PUSH
PARALYZED VETERANS OF AMERICA
PARENTS WITHOUT PARTNERS
PENNSYLVANIA LABOR PRESS ASSOCIATION
PHI BETA SIGMA FRATERNITY
PLANNED PARENTHOOD FEDERATION
PROGRESSIVE ALLIANCE
PROJECT ON FOOD ASSISTANCE & POVERTY
PUBLIC EMPLOYEE DEPARTMENT, AFL-CIO
RURAL AMERICA
RURAL COALITION
SEAFARERS INTERNATIONAL UNION OF NORTH AMERICA
SECONDARY RESOURCE DEVELOPMENT, INC.
SELF RELIANCE, INC.
SERVICE EMPLOYEES INTERNATIONAL UNION
SHEET METAL WORKERS INTERNATIONAL ASSOCIATION
SIERRA CLUB
SOUTHEAST NEIGHBORHOOD HOUSE
TRANSPORT WORKERS UNION
UNION OF AMERICAN HEBREW CONGREGATION
UNION TEACHER PRESS ASSOCIATION
UNITARIAN UNIVERSALIST ASSOCIATION
UNITED ASSOCIATION OF PLUMBING & PIPE FITTING INDUSTRY
UNITED AUTO WORKERS
UAW LOCAL UNION PRESS ASSOCIATION
UNITED BROTHERHOOD OF CARPENTERS
UNITED CHURCH OF CHRIST, OFFICE FOR CHURCH & SOCIETY
UNITED FOOD & COMMERICAL WORKERS INTERNATIONAL UNION

U.S. CATHOLIC CONFERENCE, DIVISION OF URBAN AFFAIRS
U.S. CONFERENCE OF MAYORS
U.S. STUDENTS ASSOCIATION
UNITED STEELWORKERS OF AMERICA
UNITED STEELWORKERS PRESS ASSOCIATION
UNITED TRANSPORTATION UNION
WASHINGTON OFFICE, UNITED PRESBYTERIAN CHURCH IN THE U.S.A.
WASHINGTON STATE DEPARTMENT OF EDUCATION
WESTERN LABOR PRESS ASSOCIATION
WIDER OPPORTUNITIES FOR WOMEN
WOMEN, U.S.A.
WOMEN'S EQUITY ACTION LEAGUE
WOMEN'S LEGAL DEFENSE FUND
ZERO POPULATION GROWTH

Chairman **Domenici**. Now, we will move to you, Dr. Carlson, representing the National Association of Realtors.

STATEMENT OF JACK CARLSON, EXECUTIVE VICE PRESIDENT AND CHIEF ECONOMIST, NATIONAL ASSOCIATION OF REALTORS

Dr. **Carlson**. Thank you very much, Mr. Chairman. I understand that our comments will be put into the record as prepared.[1]

Chairman **Domenici**. They will be made a part of the record.

Dr. **Carlson**. I would just like to support the efforts of the Senate so far, and also the administration, on attempts to slow down the growth of Federal spending, taxing and regulating, and a more appropriate money supply policy. However, we do have some recommendations to strengthen the economic policy that is being considered by the Congress and proposed by the President.

SPENDING REDUCTIONS SUPPORTED

Clearly, the magnitude of the spending reductions as passed by the Senate are appropriate. We have, for the last 15 months, been attempting to petition the Congress to move in that direction. However, I do think it is important for this committee to recognize that some of the economic estimates may be a little bit off. They are very difficult to estimate, in the first place, and probably consistent with your actions last week, you are looking at a credible first concurrent budget resolution. Limitations on the spending cut of $715 billion would be more appropriate than $659 billion.

We have supported the trimming of programs, and we have done it in our association by, on January 16, going through President Carter's budget and identifying those programs that would encourage real estate and help real estate. We suggested a 10-percent cut in those particular programs. Before the new administration came into the Government, we sent a letter to every other trade association and professional association to do likewise, so we are putting ourselves where we talk and trying to identify program cuts. You will see those in attachments 5 and 6,[2] and some of those have been accepted by the Reagan administration, and some have not.

We do think it is important that tax relief be tied to spending reductions; that tax relief be no higher than your spending reductions. Otherwise, the deficit would be higher than it would otherwise be and would fuel inflationary expectations. Even the most ardent supply-side-oriented people would have to take into account that it takes a while to build your capital and your equipment and for it to start adding to productivity grills

Consequently, in the short run, we think that it is a mistake to have tax relief larger than your spending reductions. And given what is happening on the House side and what the compromise might be, you may need to consider tax relief on the order of $30 to $35 billion in the first full year instead of the $50 to $60 billion that is being considered.

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[1] See p. 185.

[2] See pp. 199 and 209.

TAX RELIEF TO ENCOURAGE SAVINGS NEEDED

We also say that you need to change the composition of tax relief more toward explicitly or directly encouraging savings and investment. Therefore, we would think it would be appropriate to trim down the across-the-board personal income tax reductions and to have more tax relief aimed at directly encouraging savings and investment.

The kinds of savings and investment we would like to recommend would be the type that would directly encourage savings, such as increasing the interest deductability from taxes from $200 and $400—$200 for individuals and $400 for joint returns—up to $500 and $1,000. This has particularly good characteristics, fitting into other testimony given here that it would tend to help the lower-income people and the elderly.

Also, we think expansion of the IRA individual account ceilings from $1,500 to a higher amount would be appropriate. It would, of course, have the benefit of helping the 55 percent of Americans who have obviously inadequate pension programs.

We do think that, in any case, the tax relief proportions should change from $1 out of every $5 of tax relief going to directly stimulating savings investment to $1 out of every $2. Going toward directly stimulating savings would tend to rectify that particular proportion.

PROBLEMS WITH DEPRECIATION REFORM

We do see problems in the depreciation reform. The depreciation reform, as now identified, increases taxes on rental housing units, which are fast becoming the form of housing for lower-income people, minorities, and the elderly. The rate of return, as we see, of existing tax law in comparison with the 18-year, straight-line depreciation requirement of the administration's proposal would be to actually cause the rate of return to go down by 5 percentage points.

So, the proposal of the depreciation side is actually increasing the tax load upon rental housing that is in very great short supply. We would argue that you have the same depreciation life no matter where the bricks and mortar go. Whether they go for industry or go for housing or go for owner-occupied structures or investor-provided structures, it should be at, say, 15 or 12 years, and one should take into account that component depreciation allows for much shorter depreciation life for other than the shell within the structure.

So, I think that that has to be considered by the Congress; that the proposal now developed by the administration was done in haste, poorly designed, and increases taxes on the needy. The safety net proposal of the administration is being violated as far as rental housing is concerned.

The last point we would like to make is that there is implicit in this a discrimination against housing, rental housing being an example of that, and there is a risk of the program overstimulating fiscal policy, consequently putting pressure on monetary policy, making interest higher, and thereby lessening investment to some degree, but certainly there is less housing.

HOUSING SHORTAGE DEVELOPING

Clearly, what we have seen in the last few years is a developing shortage of housing. The Federal National Mortgage Association just finished a conference last month, and at that conference they estimated that the housing needs for the decade of the 1980's would be somewhat larger than the housing needs for new housing that we saw in the decade in the 1970's. Clearly, we are below that level that is required to provide the additional new housing.

Also, the proportion of funds out of GNP has been trending down for 30 years. The proportion of loanable funds going for housing has been trending down. Clearly, any antihousing type of approach in any economic policy ought to be looked at very carefully.

In terms of what the impact might be in your particular home States, in attachment 3[1] we have tried to indicate that if you made the modifications we are suggesting to you, they would have a rather large impact in your home States. In the case of New Mexico, where the administration's current program would increase jobs to 1,100, we think that with a more prosavings and investing approach and making sure the deficit does not climb, instead of 1,100 jobs being added in the State of Mexico, we would see 6,700.

In the case of average household income, instead of a $1,300 increase in the case of the administration's proposal, it could be $3,300. In the case of housing, it probably would have no beneficial impact upon housing at all. With these modifications we have talked about, 14,500 homes could be built.

We also have it for Nebraska, Iowa, and Washington, if you would care to look at attachment 3.

So, we strongly argue that, yes, we have made a new beginning, but there needs to be considerable care and modification in terms of economic policy as it proceeds through the Congress.

Thank you.

Chairman **Domenici**. Thank you very much, Doctor.

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[1] See p. 197.

STATEMENT
on behalf of the
NATIONAL ASSOCIATION OF REALTORS®
regarding
HOUSING AND THE PRESIDENT'S PROGRAM
FOR ECONOMIC RECOVERY
to the
SENATE BUDGET COMMITTEE
by
DR. JACK CARLSON
April 6, 1981

I am Jack Carlson, Executive Vice President and Chief Economist of the NATIONAL ASSOCIATION OF REALTORS®.

On behalf of the more than 750,000 members of the National Association, we greatly appreciate the opportunity to present our views on budget policies to assure improvements in food, clothing and shelter for all Americans in the future.

SUMMARY OF THE PRESIDENT'S PROGRAM

We find President Reagan's program for economic recovery appropriately comprehensive and a major improvement in economic policy. We endorse slowing the growth of government spending, taxing and regulating and more appropriate money supply policies. We endorse a multi-year plan to achieve a more stable and faster growing economy where all Americans; rich and poor; young and old; and minorities can prosper.

While the Administration's program provides the necessary prerequisites to achieving a sustained recovery in the economy, its effectiveness in fighting inflation, lowering interest rates and reviving housing could be further improved by restructuring the Administration's tax relief proposals to place a greater emphasis on incentives specifically directed at stimulating savings and investment, balanced for both industry and housing.

RECOMMENDATIONS FOR IMPROVEMENT

We recommend the following concerning the President's program:

(1) The Congress should accept the magnitude of the President's spending slowdown (which generally coincides with our own petitions to the Federal government during the last 15 months and published most recently in the newspapers on March 23, 1981, found in Attachment 4).

(2) Without a substantial slowdown in Federal spending growth, government spending as a share of the nation's output of goods and services (GNP) will continue to rise. Under current law, Federal outlays (on and off budget) will likely rise by over 12 percent in FY 1982, following a massive 17 percent growth in FY 1980 and a 15 percent increase in FY 1981. This would keep the Federal share of GNP over 23 percent and at near record levels.

These excessively high increases in Federal spending push up inflation and interest rates and crowd out investment, particularly in housing.

(3) The Congress should trim most programs, except those serving the truly needy. Equal sacrifice for a better future is

appropriate for all Americans. We continue to offer to do our share. On January 16, 1981, we supported over $1.3 billion of FY 1982 cuts in programs affecting real estate, and we wrote to every major trade and professional association to recommend they do likewise (see Attachment 5).

(4) Slower spending is a prerequisite for earning adequate tax relief. Tax relief must be tied to lower spending so that the Federal deficit will trend downward each year towards balance over the next 4 years.

We certainly need tax relief to stimulate increased savings and investment and offset the impact of inflation on effective tax rates. To have a significant beneficial economic impact, this tax relief also needs to be substantial. But without matching spending slowdowns of the same magnitude, too large tax relief could harm the economy rather than improve it.

While we recognize that this committee will not be recommending specific changes in tax law, the members of the committee will need to be aware of the impact alternative tax proposals as an integral part of your deliberations on the overall budget resolutions processes.

(5) Because of the need for keeping spending reductions and tax relief linked and the need to stimulate savings, we recommend limiting across-the-board personal income tax relief to 5 percent annually over the next 3 years, starting no sooner than July 1981.

A similar recommendation was made in a letter to President Reagan last month and signed by several industry associations, including bankers, savings and loans, mutual savings banks, mortgage bankers, home buildings, and REALTORS® (see Attachment 7).

Five percent annual reductions in personal income tax rates over each of the next 3 years is large enough to offset higher personal income tax receipts caused solely by inflation without excessively boosting consumer spending. Larger, across-the-board reductions in individual income tax rates, on the other hand, would risk excessively stimulating consumer spending, driving up inflation and interest rates and depressing housing activity.

The potential inflationary impact of large personal income tax rate reductions would be greater if Congress enacts these tax reductions but fails to slow Federal spending growth by as much as recommended by the President. Over the next 4 years, inflation could be increased by nearly one percentage point, housing starts lowered by over 100,000 units and housing sales reduced by over 300,000 units (see Attachments 1 and 3).

(6) America's savings rate has dropped to under 4 percent of people's spendable incomes--the lowest level in this country since 1950 and the lowest of any industrial nation. This poor savings performance underscores the need for specifically directing tax relief to boosting personal savings where it is most needed.

Some boost to savings would occur indirectly through the across-the-board reductions in personal income tax rates proposed by the Administration. However, incentives for additional savings can be provided more efficiently by directing tax relief specifically at encouraging more savings. We recommend raising the limit on dividend and interest income excludable from Federal taxation to at least $500 for individual returns (and $1,000 for joint returns) now and expanding this ceiling to at least $1,000/$2,000 during the next four years. We also recommend raising the ceiling on annual contributions to Individual Retirement Accounts (IRA) from the current level of $1,500 to $7,500 during the next four years and extending eligibility for IRA contributions to people with inadequate private pension plans (see the Economic Impact shown in Attachment 10).

The larger interest and dividend exclusion we are recommending would generally benefit lower and middle income groups and the elderly. The expansion of IRA use would benefit middle income people and help provide a better retirement "safety net" for the 55 percent of workers who do not have private pension programs (see Attachments 9 and 11).

(7) The Administration has wisely called for reductions in tax lifetimes for new investment to spur capital formation and boost productivity growth. However, we believe that the Administration proposal for shorter depreciation lives inadequately

stimulates total investment. We also believe it is unfavorable for rental housing and could lead to a decline in rental housing construction.

At a time when the need for new capital formation is greatest--with defense spending and related investment rising rapidly, with large increases in the labor force and with growing energy and environmental costs--only one out of five tax relief dollars would directly stimulate total investment under the Administration's proposal. This would be one of the lowest proportions of total tax relief specifically directed at increased capital formation in the last 20 years.

It should be emphasized that residential investment needs to be encouraged as well as nonresidential investment to reduce future housing shortgages and lower shelter costs. A continuation of the recent trends of a declining share of residential investment in the gross national product will only exacerbate the already emerging shortage of housing (see Attachment 13).

Under the Administration's proposal, owner occupied nonresidential structures would be written off over 10 years on an accelerated basis. Leased commercial and industrial structures, on the other hand, would be written off over 15 years on a straight line basis. Rental housing other than low income residential, would be written off over 18 years on a straight line basis.

Under the Administration plan, a building made out of the same materials and having the same useful life could be up to 24 percent more costly for individuals providing rental housing than for commercial or industrial users (see Attachment 2). This is an especially important factor if it is also remembered that nonresidential structures normally also offer a less risky and often larger return per square foot. This more favorable treatment for nonresidential structures than rental housing could result in funds being siphoned out of housing, particularly housing for those groups heavily dependent on rental accomodations such as the elderly, minorities and the poor.

Even more importantly, the changes in the depreciation laws for rental housing proposed by the Administration could lower the return to investors in residential real estate compared with what they can now achieve under current law. While the Administration proposes lowering the tax lifetime for conventional rental housing to 18 years (from its current level of more than 30 years for a building shell), this advantage could be more than offset by the loss of component depreciation and the loss of accelerated write-off as is allowed under current law.

In particular, a significant proportion of a rental structure's depreciable basis consists of major systems such as electrical and plumbing, which can currently be written off using accelerated methods using much shorter lives than those proposed by the Administration. Together with the loss of accelerated depreciation on the building shell and other long lived components, the Administration plan would, therefore, significantly raise taxes on rental structure and decrease the incentive to invest in rental housing.

Preliminary results done for the NATIONAL ASSOCIATION OF REALTORS® for a prototypical rental housing project indicate a decline in the rate of return from a rental housing investment of more than 5 percentage points in switching from current law to the Administration's plan. We would be happy to provide the Committee with further results from our analysis as soon as they are available.

Although I must stress that these results are still preliminary, they do point out that the Administration plan could have an unexpected and harmful impact on rental housing. They also underscore the need for providing a more equitable treatment for rental housing in any plan for shortened tax lives. At the very least, depreciation lives for structures should be uniform, such as 15 years for all commercial, industrial and rental residential structures regardless of whether or not they are owner occupied. A faster write-off of 12 years would provide more stimulation for the rental housing and nonresidential structures.

Any proposed changes in depreciation provisions must also ensure that tax lives are not increased on the short lived components of depreciable structures compared with what is available under current law.

Attempts to simplify the tax code by eliminating component depreciation run the risk of offsetting any potential stimulus to new construction from shorter lives for building shells. Our analysis indicates that even 15 years straight line depreciation on structures would be worse than current law if separate allowance is not made for shorter lived components of the building and that tax lives for structures would need to be reduced to 12 years in order to provide an adequate stimulus under these conditions.

A greater stimulus to total investment could also be made by shortening the phase-in period for lower tax lives compared to the slow phase-in proposed by the Administration. For example, the shorter tax lives for rental residential and nonresidential structures outlined already could be adopted immediately and the 5 year depreciation life for machinery phased in over 3 years instead of 5 years as proposed by the Administration. This would encourage more capital formation sooner than under the Administration plan and reap quicker benefits for the economy from lower inflation and higher living standards.

(8) To stimulate capital formation, Congress should also allow current expensing of interest and taxes incurred during construction and remove the unfair $10,000 investment interest limitation on individuals which is not imposed on corporations (see Attachment 8).

Results of the Recommendations

If these improvements to the Administration's proposals are accepted, inflation will be lower, interest rates will be lower, investment in industry and housing will be higher. More jobs will be created and the average American will be ensured of more adequate food, clothing and shelter (see Attachments 1 and 3).

ATTACHMENT 1

CHANGES IN ECONOMIC OUTLOOK IN 1984
PRESIDENT'S PROGRAM PROPOSED AND LIKELY
COMPARED WITH REALTORS®' RECOMMENDATIONS

	President's Proposal		REALTORS®' Modifications
	Full Spending Cuts	Half Spending Cuts	
Real U.S. Output (GNP)	0.5%	2.1%	3.2%
Real Consumption	1.1%	2.6%	2.0%
Consumer Inflation (CPI)	Zero	0.8%	-1.8%
Mortgage Interest Rates (Percentage Points)	Zero	0.5	-2.0
Real Investment			
Non-Residential Structures	11.1%	14.0%	19.0%
Equipment	12.7%	16.0%	23.0%
New Housing:			
Starts (Units)	27,000	-164,000	500,000
1981-84	9,000	-125,000	1,950,000
Net Exports	-10.5%	-17.9%	-5.0%
Jobs	200,000	800,000	1,200,000
Productivity	0.3%	1.3%	2.0%
Average Household Income:			
Annual	$790	$1,360	$1,770
1981-84	$1,600	$3,000	$3,900

ATTACHMENT 2

ADVANTAGE OF SHORTER DEPRECIATION LIVES
($100,000 Structures, 15% Discount Rate)

Depreciation Life	First Year Depreciation Allowance	Present Value of Depreciation Allowances	
		Dollars	As a % of Original Cost
18 Straight Line	$ 5,555	$34,044	34%
15 Straight Line	6,667	39,002	39%
10 Accelerated	10,000	57,721	58%

The 10-year life with accelerated write-off effectively lowers the cost of the building about 19% or $19,000 compared with a depreciation life of 15 years and straight line write-off and by about 24% or $24,000 compared with a depreciation life of 18 years and straight line write-off.

ATTACHMENT 3

COMPARISON OF THE ECONOMIC IMPACT OF THE REAGAN ADMINISTRATION'S SPENDING AND TAX REDUCTIONS AND REALTOR MODIFICATIONS DURING THE NEXT FOUR YEARS

State	Increase(+) or Decrease(-) in Employment After Four Years ('000 Jobs)			Increase(+) or Decrease(-) in Average Household Income (Dollars)			Increase(+) or Decrease(-) in Housing Starts (Units)		
	Administration Plan		Realtor Modifications	Administration Plan		Realtor Modifications	Administration Plan		Realtor Modifications
	With Full Spending Cuts	With Half Spending Cuts	With Full Spending Cuts	With Full Spending Cuts	With Half Spending Cuts	With Full Spending Cuts	With Full Spending Cuts	With Half Spending Cuts	With Full Spending Cuts
Alabama	2.9	11.8	17.7	1,200	2,300	3,100	—	-1,100	12,400
Alaska	0.4	1.6	2.4	2,200	4,100	5,300	—	-400	6,100
Arizona	2.3	9.2	13.8	1,300	2,900	3,700	300	-4,000	62,700
Arkansas	1.6	6.6	9.9	1,300	2,400	3,100	—	-1,700	26,900
California	22.1	88.4	132.3	1,600	3,400	4,300	1,200	-15,500	244,600
Colorado	2.9	11.5	17.3	1,700	3,100	4,100	200	-3,000	46,000
Connecticut	3.1	12.6	18.9	1,900	3,300	4,300	—	-1,000	13,900
Delaware	0.6	2.3	3.4	1,800	3,300	4,300	—	-300	4,100
Florida	7.9	31.8	47.7	1,600	3,000	3,900	900	-11,000	183,700
Georgia	4.7	19.0	28.5	1,400	2,600	3,400	300	-4,000	62,600
Hawaii	0.9	3.6	5.4	1,700	3,200	4,200	—	-400	9,300
Idaho	0.8	3.1	4.6	1,300	2,300	3,300	—	-900	13,900
Illinois	10.5	42.1	63.2	1,800	3,400	4,400	300	-3,200	49,300
Indiana	4.9	19.5	29.3	1,600	3,000	3,900	200	-2,100	32,900
Iowa	2.5	9.8	14.7	1,600	3,000	3,900	—	-1,600	24,900
Kansas	2.1	8.3	12.4	1,700	3,100	4,000	—	-1,200	19,100
Kentucky	2.7	10.8	16.2	1,300	2,300	3,200	—	-1,800	23,200
Louisiana	3.4	13.8	20.7	1,400	2,700	3,300	200	-2,700	42,000
Maine	0.9	3.7	5.5	1,300	2,400	3,200	—	-400	9,300
Maryland	3.6	14.2	21.4	1,700	3,100	4,100	—	-1,900	27,300
Massachusetts	3.9	22.8	33.6	1,700	3,100	4,100	—	-1,400	22,200
Michigan	7.5	30.0	45.0	1,600	3,000	4,000	300	-3,100	48,800
Minnesota	3.9	15.7	23.5	1,600	3,000	3,900	100	-2,400	36,800
Mississippi	1.8	7.3	11.0	1,100	2,100	2,800	—	-1,100	17,900
Missouri	4.4	17.5	26.2	1,300	2,800	3,700	200	-2,100	33,100
Montana	0.6	2.6	3.8	1,400	2,600	3,400	—	-400	6,200
Nebraska	1.4	5.5	8.3	1,300	2,800	3,700	—	-1,000	16,900
Nevada	1.0	3.9	5.9	1,800	3,400	4,400	—	-1,400	21,800
New Hampshire	0.9	3.4	5.1	1,500	2,800	3,700	—	-400	9,000
New Jersey	6.7	26.7	40.0	1,800	3,400	4,400	—	-1,900	29,700
New Mexico	1.1	4.4	6.7	1,300	2,300	3,300	—	-900	14,300
New York	15.2	60.7	91.0	1,700	3,100	4,100	—	-2,000	31,700
North Carolina	5.4	21.6	32.4	1,400	2,600	3,400	300	-4,300	67,100
North Dakota	0.5	2.2	3.3	1,500	2,800	3,600	—	-400	8,700
Ohio	9.6	38.6	57.9	1,600	3,000	3,900	300	-3,200	49,200
Oklahoma	2.6	10.3	15.5	1,500	2,900	3,800	100	-2,500	39,700
Oregon	2.3	9.2	13.8	1,600	3,000	3,900	100	-2,400	36,900
Pennsylvania	10.4	41.5	62.2	1,500	2,900	3,800	200	-3,000	46,900
Rhode Island	0.8	3.4	5.1	1,500	2,800	3,700	—	-300	3,200
South Carolina	2.6	10.6	15.9	1,300	2,300	3,200	100	-2,200	34,200
South Dakota	0.5	2.1	3.2	1,400	2,600	3,400	—	-300	8,300
Tennessee	3.9	15.7	23.6	1,300	2,300	3,300	200	-2,300	39,300
Texas	13.3	53.1	79.7	1,600	3,000	3,900	1,000	-12,300	193,300
Utah	1.3	3.2	7.7	1,300	2,400	3,100	—	-1,300	20,600
Vermont	0.4	1.8	2.7	1,300	2,300	3,300	—	-400	10,000
Virginia	4.7	18.9	28.3	1,600	3,000	3,900	300	-3,400	53,400
Washington	3.8	15.3	23.0	1,700	3,200	4,200	300	-3,800	59,200
West Virginia	1.4	3.6	8.3	1,400	2,600	3,300	—	-300	7,800
Wisconsin	4.4	17.7	26.5	1,500	2,900	3,800	200	-2,100	33,400
Wyoming	3.3	2.2	3.3	1,800	3,400	4,400	—	-300	7,300
United States	200.0	800.0	1,200.0	1,600	3,000	3,900	9,100	-125,000	1,950,000

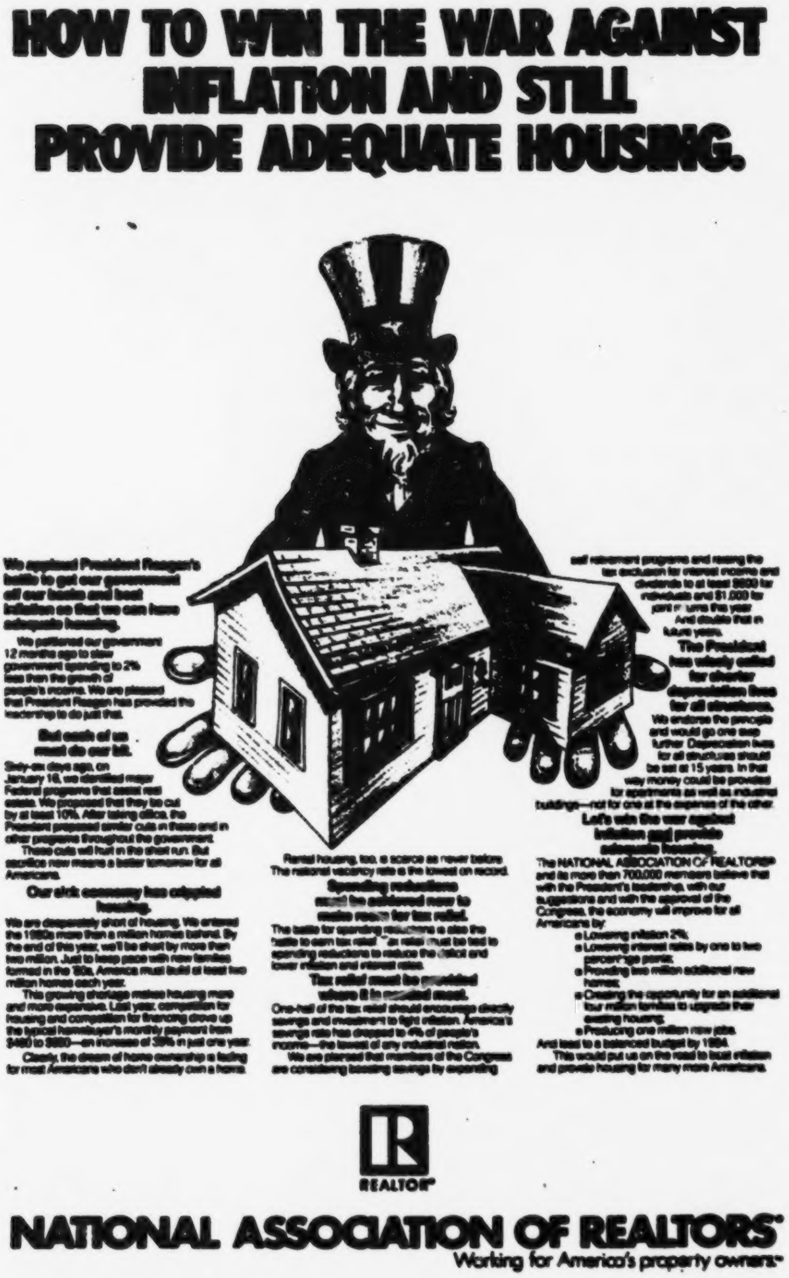
Modelling and Assumptions By The National Association of Realtors, Forecasting and Policy Analysis Division

(1)Assumes Federal spending elements equally proportionately distributed across all states.

(2) — Denotes less than 100 starts

ATTACHMENT 4

Appeared on March 23, 1981 in: The Washington Post, The Wall Street Journal, The New York Times and The Washington Star.



HOW TO WIN THE WAR AGAINST INFLATION AND STILL PROVIDE ADEQUATE HOUSING.

We applaud President Reagan's battle to get our government off our backs and beat inflation so that we can have adequate housing.

We petitioned our government 12 months ago to slow government spending to 2% less than the growth of people's income. We are pleased that President Reagan has provided the leadership to do just that.

But each of us must do our bit.

Sixty-six days ago, on January 16, we identified major Federal programs that assist real estate. We proposed that they be cut by at least 10%. After taking office, the President proposed similar cuts in these and in other programs throughout the government.

These cuts will hurt in the short run. But sacrifice now means a better tomorrow for all Americans.

Our sick economy has crippled housing.

We are desperately short of housing. We entered the 1980s more than a million homes behind. By the end of this year, we'll be short by more than two million. Just to keep pace with new families formed in the '80s, America must build at least two million homes each year.

This growing shortage makes housing more and more expensive. Last year, competition for housing and competition for financing drove up the typical homebuyer's monthly payment from $480 to $660—an increase of 38% in just one year.

Clearly, the dream of home ownership is fading for most Americans who don't already own a home.

Rental housing, too, is scarce as never before. The national vacancy rate is the lowest on record.

Spending reductions must be achieved now to make room for tax relief.

The battle for spending reductions is also the battle to earn tax relief. Tax relief must be tied to spending reductions to reduce the deficit and lower inflation and interest rates.

Tax relief must be provided where it is needed most.

One-half of the tax relief should encourage directly savings and investment to fight inflation. America's savings rate has dropped to 4% of people's income—the lowest of any industrial nation.

We are pleased that members of the Congress are considering boosting savings by expanding self retirement programs and raising the tax exclusion for interest income and dividends to at least $800 for individuals and $1,000 for joint returns this year. And double that in future years.

The President has wisely called for shorter depreciation lives for all structures.

We endorse the principle and would go one step further. Depreciation lives for all structures should be set at 15 years. In that way money could be provided for apartments as well as industrial buildings—not for one at the expense of the other.

Let's win the war against inflation and provide adequate housing.

The NATIONAL ASSOCIATION OF REALTORS® and its more than 700,000 members believe that with the President's leadership, with our suggestions and with the approval of the Congress, the economy will improve for all Americans by:

- Lowering inflation 2%;
- Lowering interest rates by one to two percentage points;
- Providing two million additional new homes;
- Creating the opportunity for an additional four million families to upgrade their existing housing;
- Producing one million new jobs.

And lead to a balanced budget by 1984.

This would put us on the road to beat inflation and provide housing for many more Americans.

REALTOR®

NATIONAL ASSOCIATION OF REALTORS®

Working for America's property owners.™

Proposals made January 16, 1981, for reductions from President Carter's proposals in FY 1982 Budget.

ATTACHMENT 5.1

REALTORS®' PROPOSALS FOR REDUCTIONS IN BUDGET PROPOSALS FOR PROGRAMS AFFECTING THEIR INDUSTRY

A program of slowing the growth of federal spending does not have to be synonymous with a program that impacts negatively on the needy. We have reviewed HUD's budget and have found that:

- There are many areas in which the elimination of programs would not impact on the poor.
- There are also several areas in which the program funds proposed by the Carter Administration could be reduced without any reduction in services.
- Additionally, there are program funds which could be administered more efficiently resulting in the recapture and reprogramming of funds appropriated in prior years.
- Finally, there is at least one program in the HUD budget which could be suspended for a time in order to rebuild the nation's economy — a goal which is more advantageous in the long run than the program itself.

The changes outlined below will impact significantly on HUD's budget but will not affect the services currently being provided to house the low-income families in our nation.

- The Carter Administration has requested fiscal 1982 funding for its Community Development Block Grant programs in the amount of $3.997 billion in Outlays and $3.96 billion in Budget Authority. This is an increase of $60 million in Outlays and $266 million in Budget Authority over funding for fiscal year 1981.

ATTACHMENT 5.2

In this era of economic instability we would recommend that this increase be eliminated and that funding for this program remain at its current level.

- Another program used to revitalize our nation's distressed cities is HUD's Urban Development Action Grant program. The Carter Administration recommended $610 million in Outlays and $675 million in Budget Authority for fiscal 1982. Again, while this program has proven beneficial in many areas, we believe that the overall economy would experience greater benefits by less federal spending. As a result we recommend that a moratorium be placed on this program and that we should rely on Community Development Block grants instead.
- One very real possibility also exists for substantial savings -- perhaps billions -- by a change in HUD's procedures for renewing commitments. While we acknowledge the need to renew some commitments that have not yet been activated by project developers and sponsors, we also know that HUD, for many years, has continued to routinely renew unfulfilled commitments without regard to the reasons for renewal or timetable for realization of the commitments. This practice has imposed a costly burden on the federal

ATTACHMENT 5.3

budget and should be reviewed. The action would involve commitments for Section 236, Section 235, Section 8, GNMA Tandem programs and others.

- Public Housing Agencies Operating Subsidies were originally authorized to cover unexpected costs in expenses for Public Housing projects. These funds, however, have become a band-aid approach to mounting expenses and should be phased out with adequate emphasis on HUD's Comprehensive Modernization program for Public Housing. This action would cure many of the basic structural problems of public housing projects with less emphasis on continuing funds which provide only stop-gap remedies.
- Another program which could be eliminated without significant impact is HUD's new Solar Energy and Energy Conservation Bank. The Carter Administration's budget for this program in FY 1981 reflects $47 million in Outlays and $121.2 million in Budget Authority. For fiscal 1982 the budget request of the previous Administration was $134.25 million in Outlays and $125 million in Budget Authority. Again, we recommend no start-up for this program since the results of the program can be obtained through other means. The people served through the Solar Energy and Energy Conservation Bank are currently able to receive assistance through HUD's Community Development Block Grants

ATTACHMENT 5.4

funds or funds administered by other federal agencies.

- On government-assisted housing programs, spending could be reduced by changing the ratio of New/Substantial Rehabilitation Section 8 units to Existing/Moderate Rehabilitation units. In its Section 8 requests, the Carter Administration requested $1.133 billion in Contract Authority and $21.158 billion in Budget Authority for fiscal 1982 with an equal mix between New/Substantial Rehabilitation units and Existing/Moderate Rehabilitation units. By placing greater emphasis on the Existing/Moderate Rehabilitation components of the program, greater use of the program funds could be realized. While we acknowledge that there currently exists a critically low vacancy rate in rental dwellings across the country, we also recognize that some 3 million units exist which could be put into use if HUD's Section 8 Moderate Rehabilitation funds were emphasized to a greater extent. This change in ratio is a possible alternative to decreasing the Carter Administration's request to subsidize 260,000 Section 8 and Public Housing units to 225,000 as requested by the Reagan Administration.
- The Reagan Administration has committed that it will implement a currently/existing statute authorizing HUD to increase tenant contributions for rents in

ATTACHMENT 5.5

subsidized housing from 25 percent to 30 percent of their incomes. This is another action that could be taken to curtail the amount of subsidies that HUD must pay, and we would endorse this step taken by the new Administration. According to the Congressional Budget Office, implementation of this statute would save approximately $69 million in Outlays and $38 million in Budget Authority for fiscal year 1982. While this change in policy would affect low-income recipients of HUD's housing programs, it would not place a disproportionate burden on them in contrast to the more affluent segment of our population.

One obvious example of regulations and statutes that impose excessive costs that surpass the benefits to society is the requirement that Davis-Bacon labor standards be applied in all federal construction. The Congressional Budget Office estimates that the elimination of Davis-Bacon requirements would save $179 million in Outlays and $160 million in Budget Authority for fiscal year 1982.

- The HUD Budget proposed by the Carter Administration called for Fiscal 1982 spending of $9.8 million in Outlays and $10 million in Budget Authority for the Housing Counseling program. Funding for this program for FY 1981 was set at $9.4 million in Outlays and $10 million in Budget Authority. Housing counseling

ATTACHMENT 5.6

for homebuyers and renters is a very important tool in terms of logical budget planning and proper care of property. The line item in HUD's budget, however, is one which could be eliminated because the funds, in many cases, duplicate the efforts of civic organizations and the efforts of managers in HUD-assisted projects. Additionally, in many cases, Community Development Block Grants funds are already being used for this purpose. Elimination of this program from the HUD budget would encourage greater participation of local entities but would not stifle the services provided.

- Among the programs that could be eliminated is funding for the Community Housing Resource Boards. This program grew out of an agreement between the Department and the NATIONAL ASSOCIATION OF REALTORS®. It was never envisioned, however, that funding by HUD would be necessary since the talent and facilities of REALTORS® in local communities were to be used. The Carter Administration proposed fiscal 1982 Budget Authority and Outlays of $2.0 million.
- Another program that may be eliminated because of its duplication with other federal funds is HUD's Neighborhood Self Help Development program. In fiscal 1981 HUD has been allocated Outlays of $15.4 million and Budget Authority of $9.0 million. For fiscal 1982, HUD's budget request was for $8.8 million in Outlays and $9.0 million in Budget Authority.

ATTACHMENT 5.7

While, again, we do not argue with the intent of this program, its primary benefit was in encouraging the organization of community groups. After the first few years of this program, we see consortiums that have been established -- but not always as the result of HUD's Neighborhood Self Help Development Program. New private non-profit groups have been founded and are active in their respective communities, and older, well-established non-profit groups have also been working toward the same goals of revitalization. Additionally, where the need still exists, Community Development Block Grant funds can be used to provide needed monies for technical assistance.

- While we acknowledge the need for research by HUD we recognize that in previous years, the Department has frequently conducted research efforts with the goal of rationalizing a predetermined conclusion. One obvious example may be cited in the studies funded by HUD regarding the extent of discrimination practices in housing. The subjective tests used and the results of the study demonstrated preordained conclusions that were based on opinion rather than fact. With tighter administration of HUD's research programs and more oversight by Congress, we recommend a 10 percent cut in HUD's budget for fiscal 1982 as proposed by the Carter Administration. From a budget request of $48.6 million in Outlays and $50 million

ATTACHMENT 5.8

in Budget Authority this 10 percent budget reduction would save $4.86 million in Outlays and $5 million in Budget Authority.

- The previous Administration's request for an increase in HUD staff of 315 slots should also be denied, which would lead to a savings of approximately $9 million in fiscal 1982. While we realize that many program areas are operating without adequate staffing, we are also aware that other offices have a surplus of employees. Human nature dictates and past experience has shown that because staffing is a symbol of status, program supervisors will not recommend staffing cuts, but do frequently recommend staff increases. It is possible, therefore, to review the overall staffing in HUD and transfer employees and slots from one program area to another. This is especially needed if the budget for fiscal 1982 includes the elimination of specific programs as envisioned by the Reagan Administration and as proposed by the NATIONAL ASSOCIATION OF REALTORS®.
- Additionally, in terms of HUD's administrative costs non-essential travel should be eliminated. Rather than curtailing spending for travel, the Carter Administration requested an increase in travel funds for fiscal year 1982 in the amount of $2.6 million. Eliminating non-essential travel would result in at least that amount.

ATTACHMENT 5.9

- President Reagan, in his Executive Order dated February 17, 1981, stated that: "Regulatory action shall not be undertaken unless the potential benefits to society for the regulation outweigh the potential costs to society ..."

We envision that as a result of the actions outlined above, federal expenditures by the Department of Housing and Urban Development will be cut by at least 10 percent in terms of Outlays and Budget Authority.

ATTACHMENT 5.10

NATIONAL ASSOCIATION OF REALTORS

REALTOR®

John R. Wood, President
Julio S. Laguarta, First Vice President
Jack Carlson, Executive Vice President

925 15th Street, N.W., Washington, D.C. 20005
Telephone 202 637 6800

January 21, 1981

Dear Association Member:

For more than 14 months now, the NATIONAL ASSOCIATION OF REALTORS®, on behalf of its more than 750,000 members, has been stressing the effect of poor economic policies on the housing industry.

However, it is not just our industry that has suffered and continues to be damaged by high inflation. Virtually every area of our nation's economy is feeling the burden of the poor mix of fiscal and monetary policies.

On both January 16 and January 19 we offered recommendations to the new administration and Congress and we stressed that we are willing to sacrifice in areas that affect housing and other real estate because in the long run we are confident our industry will benefit.

I am taking this opportunity to ask you to join in this approach — sacrifice now for future economic strength — and have enclosed the advertisement we employed and some of our material. First, insist that our government slow overall spending, reduce the federal deficit, provide tax relief directly for encouraging savings and investment as proposed in the attached advertisement we placed in major newspapers January 19. Second, do your part by recommending programs that benefit your industry be trimmed, as we have.

If we can be helpful to you, please call me at 202/637-6891.

Together we can get our economy and our industries back on track. And now is the most appropriate time to begin.

Sincerely,

Jack Carlson

Jack Carlson

Enclosures

ATTACHMENT 6
(p.1 of 2)

PROGRAMS AFFECTING OUR INDUSTRY

PROGRAM		CARTER BUDGET PROPOSALS ANNOUNCED JANUARY, 1981		CHANGES FROM CARTER BUDGET PROPOSED BY: NATIONAL ASSOCIATION OF REALTORS® JANUARY 16, 1981		CHANGES FROM CARTER BUDGET PROPOSED BY: REAGAN ADMINISTRATION MARCH, 1981	
		(FY 1981)	(FY 1982)	(FY 1981)	(FY 1982)	(FY 1981)	(FY 1982)
		(Dollars in Millions)					
Community Development Block Grants (CDBG) and Urban Development Action Grants (UDAG)	BA:	4,370	4,635		-941	0	-469
	O:	4,303	4,608		-670	0	+ 5
Comprehensive Planning Assistance (Section 701)	BA:	34	35			-34	-35
	O:	40	35			-3	-35
Government Assisted Housing (Section 8/ Public Housing)	BA:	29,333	29,664		-2,689	-1,939	-9,891
	O:	5,637	6,982		-67	-1,170	-1,367
Direct Loans for Elderly and Handicapped (Section 202)	BA:	781	774			0	0
	O:	800	780			0	0
Public Housing Operating Subsidies	BA:	1,071	1,265		-253*	-100	-60
	O:	972	1,141		-228*	-43	-90
Flexible Subsidies for Trouble Projects	BA:	18	65			0	-15
	O:	113	100			0	-15
Davis-Bacon Labor Standards	BA:				-160		
	O:				-179		

*This NAR reduction is a 20 percent decrease each year to phase-out program

ATTACHMENT 6
(p.2 of 2)

PROGRAM		CARTER BUDGET PROPOSALS ANNOUNCED JANUARY, 1981		CHANGES FROM CARTER BUDGET PROPOSED BY: NATIONAL ASSOCIATION OF REALTORS® JANUARY 16, 1981		REAGAN ADMINISTRATION MARCH, 1981	
		(FY 1981)	(FY 1982)	(FY 1981)	(FY 1982)	(FY 1981)	(FY 1982)
		(Dollars in Millions)					
Government National Mortgage Association (GNMA)							
• Tandem Programs	BA:	1,402	0			-18	+2,253
	O:	778	1,357			+136	-378
• Mortgage Assistance	BA:	0	490			0	0
	O:	0	490			0	0
Homeownership Assistance (Section 235)	BA:	3,273	0			0	0
	O:	214	317			0	0
Direct Rehabilitation Loans (Section 312)	BA:	130	134			-111	-134
	O:	133	135			-39	-199
Neighborhood Self-Help Development	BA:	9	9	-9	-9	-8	-9
	O:	15	9	-15	-9	-4	-6
Housing Counseling Program	BA:	10	10	-10	-10	-6	-6
	O:	9	10	-9	-10	-2	-5
Community Housing Resource Boards	BA:	2	2	-2	-2	0	0
	O:	2	2	-2	-2	0	0
Solar Energy/Energy Conservation Bank	BA:	121	125	-121	-132	-121	-132
	O:	47	134	-47	-149	-47	-149
Research	BA:	45	50		-5	-5	-10
	O:	48	49		-5	-1	-14
Salaries and Expenses	BA:	323	356		-12	0	-17
	O:	313	351		-12	+12	-16
TOTAL ALL HUD PROGRAMS	BA:	38,391	39,209	[illegible]	-4,213	-5,559	-9,194
	O:	13,305	15,507	[illegible]	-1,331	+184	-1,190

ATTACHMENT 7

February 13, 1981

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

We strongly support major reductions in federal spending. We feel that all Americans, including the members of our organizations, should join in sacrifices to reduce federal spending.

Tax relief should be provided only to the extent spending reductions are made to cause the federal deficit to decline towards balance each year. This would reduce pressures on interest rates and provide lower interest rates for productivity-increasing investment and adequate housing.

We feel it is important that the principal emphasis of tax relief should be directed toward stimulating savings and investment.

Respectfully,

Lee E. Gunderson
Lee E. Gunderson, President
AMERICAN BANKERS ASSOCIATION

Albert B. Hooke, Chairman
NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

Thomas H. Shealy, President
MORTGAGE BANKERS ASSOCIATION OF AMERICA

John R. Wood
John R. Wood, President
NATIONAL ASSOCIATION OF REALTORS

Herman J. Smith, President
NATIONAL ASSOCIATION OF HOME BUILDERS

Rollin D. Barnard, President
UNITED STATES LEAGUE OF SAVINGS ASSOCIATION

ATTACHMENT 8

REVENUE REDUCTION FROM REALTORS®' TAX PACKAGE
($ Billions, Fiscal Years)

	1981	1982	1983	1984	1985
Business Portion of Package					
15 Year Straight Line Write-off on New Residential and Non-Residential Structures	0.8	2.1	3.6	5.4	7.6
5 Year Write-off on New Equipment (With Phase-In)	3.8	14.5	26.5	35.0	38.9
Current Expensing of Construction Period Interest and Taxes	0.8	0.9	1.0	0.8	0.8
Remove Limitation on Deductions of Investment Interest	0.1	0.1	0.1	0.1	0.1
Individual Portion of Package					
Reductions in Personal Income Tax Rates	3.7	20.4	41.1	61.7	70.8
Tax Incentives for Savers					
Exclusion of $500/$1,000 in 1981 and 4 year phase-in of $1,000/$2,000 of interest and dividends from Federal taxes	1.6	7.2	10.2	12.6	14.4
Expansion of Contribution Ceilings from $1,500 to $7,500 during 4 years and Expansion of Eligibility on Individual Retirement Accounts	0.5	1.0	2.0	4.0	6.0
Totals:					
Gross Tax Reduction	11.3	46.2	84.5	119.6	138.6
Less Offsetting Increase in Revenue from a Stronger Economy	1.0	5.0	14.2	19.3	25.5
Equals Net Tax Reduction	10.3	41.2	70.3	100.3	113.1

ATTACHMENT 9

EFFECTS OF $500/$1,000 INTEREST AND DIVIDEND EXCLUSION BY INCOME GROUP

Gross Adjusted Income	Number of Returns with Interest Income (Millions)		Average Interest Payment per Return (Dollars)		Tax Reduction from $500/$1,000 at Typical Marginal Tax Rate 1/			
					(Dollars)		As a Percent of Average Taxable Income	
	Joint	Individual	Joint	Individual	Joint	Individual	Joint	Individual
Less than 6,000	2.13	6.59	1,120	680	-	-	-	-
6,000-11,999	4.13	5.08	1,130	1,100	108	54	1.7	0.7
12,000-15,999	3.59	2.24	946	1,230	114	57	1.0	0.5
16,000-19,999	4.35	1.24	800	1,350	126	78	0.9	0.5
20,000-24,999	4.94	0.68	830	2,080	144	90	0.8	0.5
25,000-29,999	3.19	0.28	1,130	2,790	168	102	0.7	0.4
30,000-49,999	3.91	0.29	1,690	4,350	222	132	0.7	0.4
Over 50,000	1.24	0.11	5,280	9,980	384	204	0.5	0.3

1/ Relative to current law including $200/$400 interest and dividend exclusion.

Source: Based on 1977 IRS data. Calculations by NATIONAL ASSOCIATION OF REALTORS®.

ATTACHMENT 10

IMPACT OF PROPOSED TAX INCENTIVES FOR SAVERS ON THE ECONOMY IN 1984

	Increased Exclusion of Interest and Dividend Income			Increased Ceilings from $1,500 to $7,500 and Increased Participation in Individual Retirement Accounts
	Constant $500/$1000 over next 4 years	Initial $500/$1000 increasing to $1000/$2000 over 5 years	Constant $1000/$2000 Over 5 Years	
Gross National Product (Percent Difference in Levels)	0.4	0.6	0.9	0.3
Consumer Prices (Percent)	-0.2	-0.3	-0.4	-0.1
Long Term Interest Rates (Percentage Points)	-0.4	-0.6	-0.9	-0.3
Average Spendable Income per Household with Interest Income and/or IRA ($, 1981 Prices)	230	450	670	600
Employment (Jobs)	100,000	150,000	220,000	100,000
New Housing Starts (Units)	120,000	170,000	230,000	90,000
Non-Residential Investment (Percent Difference in Levels)	4.0	5.5	8.5	2.7
Productivity (Percent Difference in Levels)	0.3	0.4	0.7	0.2
Gross Revenue Reductions	7.2	12.6	19.0	8.0
Net Revenue Reductions (Including Feedback Effects of a Stronger Economy)	5.0	9.3	13.9	6.3

Source: NATIONAL ASSOCIATION OF REALTORS®, Forecasting and Policy Analysis Division.

ATTACHMENT 11

PERCENTAGE OF PEOPLE WHO ARE ELIGIBLE WHO HAVE INDIVIDUAL RETIREMENT ACCOUNTS BY INCOME CLASS, 1977

Family Adjusted Gross Income (In Dollars)	Percentage of People Who Are Eligible	CONTRIBUTORS 1978	
		Numbers (000s)	Percent of Total Contributors
0 - 5,000	85.0	36.9	1.5
5,000 - 10,000	70.0	206.8	8.7
10,000 - 15,000	60.0	305.0	12.8
15,000 - 20,000	45.4	328.1	13.8
20,000 - 50,000	24.9	1,245.8	52.3
Over 50,000	28.6	260.1	10.9

Source: President's Commission on Pension Policy, 1979 Household Survey, Internal Revenue Service and NATIONAL ASSOCIATION OF REALTORS®' estimates.

ATTACHMENT 12

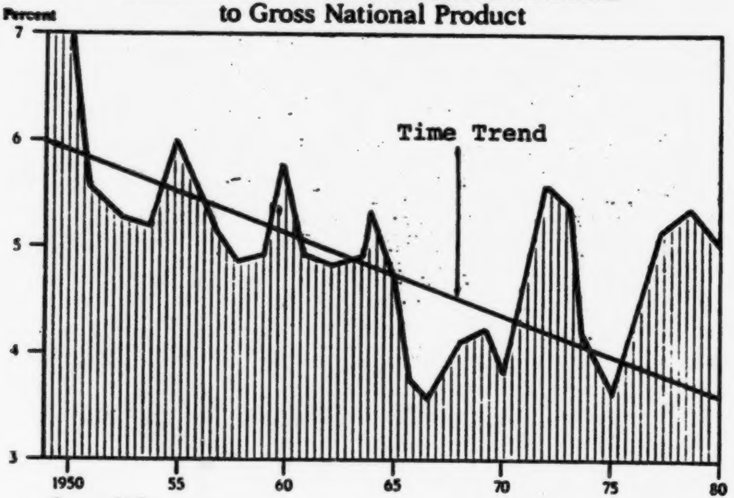
REVENUE REDUCTIONS: COMPARISON OF REALTORS®' AND ADMINISTRATION'S TAX PACKAGES

($ Billions, FY1981 through FY1984)

	ADMINISTRATION	REALTORS®
Business Reductions	60.8	95.2
Specific Tax Incentives for Savings	-	39.1
Reductions in Individual Income Tax Rates	250.1	126.9
Total Tax Relief	310.9	261.2
As a percentage of Receipts under current law	10.2%	8.6%

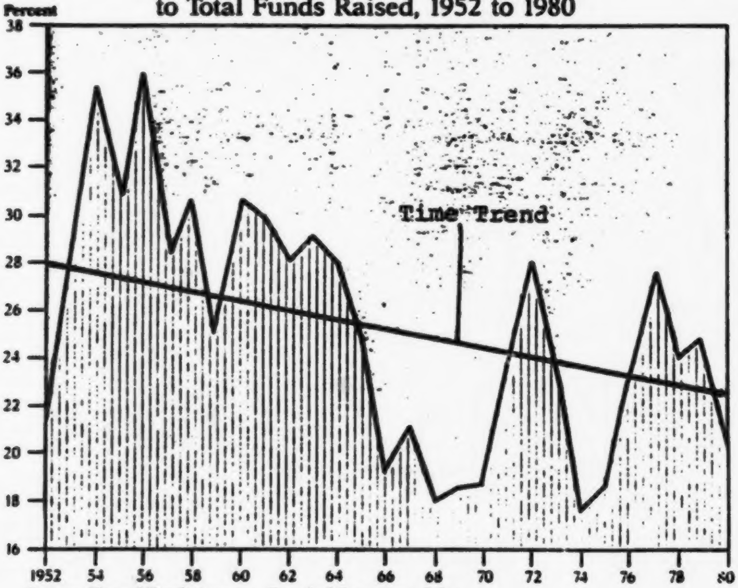
ATTACHMENT 13

Ratio of Net Residential Fixed Investment to Gross National Product



Source: GNP Accounts

Ratio of Net Residential Mortgage Credit to Total Funds Raised, 1952 to 1980



Source: Flow of Funds Accounts, Board of Governors of the Federal Reserve

Chairman **Domenici**. Marian Edelman of the National Children's Defense Fund.

STATEMENT OF MARIAN WRIGHT EDELMAN, PRESIDENT, CHILDREN'S DEFENSE FUND

Ms. **Edelman**. Thank you, Mr. Chairman. I have submitted a written statement for the record,[1] and I want to make five brief points about the impact of the President's budget proposals on children.

NEEDY CHILDREN HURT MOST BY CUTS

One is that contrary to the rhetoric in town, they will have a devastating and truly harmful effect on the neediest children when one looks at the severe, across-the-board cuts in AFDC benefits, medicaid, food stamps, child nutrition, child welfare, and title I. While many of us are very hostile to welfare, I hope we will remember that 66 percent of all AFDC recipients are children. The rest are usually single-parent mothers. Seven million children at the moment are dependent on welfare, which has not been indexed for cost of living increases. When we look at the impact of the budget proposals on them, we will see that 400,000, or almost 11 percent of the children now dependent on AFDC, will be eliminated. Another 260,000, or an additional 7 percent, will see their already unindexed benefits that have been eroded by 12 percent to inflation in the last 4 years—they will see their benefits further reduced; contrary, again, to the often heard administration assertions, truly needy children will be hurt, and be hurt in a very severe fashion.

Beyond that, we are deeply concerned with the dismantling, under the guise of controlling the budget, of very fundamental rights and protections for the neediest children. It is bad enough that we are proposing to cut 25 percent from handicapped children and another 25 percent from homeless children. And if homeless children in this society are not truly needy, I would like to know who is.

But in addition to cutting these programs 25 percent, programs that have been successful and are working, the Reagan administration is proposing to dismantle completely the protections which would insure homeless children a permanent family, provisions that this Congress passed only 8 months ago, which I think we should give a chance to work. The administration is also proposing to take away, in effect, the Federal right to education, which has resulted in hundreds of thousands of handicapped children having a chance for and an opportunity to become more independent and to become more self-sufficient. These two block grants proposal will truly hurt the neediest children.

BE SPECIFIC ABOUT WORKING PROGRAMS

Second, there is around the town the perception that nothing works, and we could not disagree more strongly. One of our strong objections to the budget proposals as they are now proposed is their wholesale nature. Little effort has been made to try to be specific, to distinguish between programs that work and programs that do not work. Many things have worked and they deserve to continue, particularly those preventive programs that have resulted in saving the taxpayers money and helping children and families grow up healthy and stay together.

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[1] See p. 222.

As a result of many of the Great Society programs of the 1960's—and we lay them out very specifically in our children's defense budget, our detailed reaction to the Reagan administration budget proposals which we hope you will consider in your deliberations in deciding what to cut and what not to cut—15 million Americans escaped poverty as a result of some of Great Society programs, including the food programs that are part of what will be cut severely now if the Reagan proposals are adopted.

As a result of title I, after years of trying to improve State performance and help the States to serve disadvantaged children more effectively—and it has been very difficult because when there were poor regulations and title I worked like a block grant, we saw the abuse and misuse of these funds, which we ourselves have documented in great detail. Only when there was firmness in the targeting, only when there were better organizations of parents, and only when there were stronger Federal regulations and enforcement did we begin to see the money actually get to poor children rather than being used to supplant local funds and rather than being used for all children. Indeed, we documented that much of this money in earlier years was spent on swimming pools and on fancy equipment for all children and not targeted programs for those eligible.

Now that this program is beginning to work and States are beginning to show improved achievement gains in both reading and mathematics, the administration is proposing to undermine this and turn it back over to States in a block grant. We know from its history and from the long effort to make this program work for poor children that this will take us back to the past. Without the parental involvement and without the targeting on these needy children, we fear that children's achievement gains will be lost.

HISTORIC PATTERN WILL RETURN WITH DISMANTLING OF PROGRAM

Similarly, by dismantling the program for handicapped children, we are sure that these children will go back to what was the historic pattern which we and many others have documented. They will be excluded from schools. There are no guarantees under the proposed Reagan consolidation for the handicapped education program that States will have to serve poor and handicapped children. There will be less parental involvement, and I find that very difficult to square with the profamily rhetoric in this administration.

Again, the Federal Government got involved in protecting this group of historically excluded children because the States had refused to do it. We really hope you will look at the progress that has been made as a specific result of the Federal protections for handicapped children under Public Law 94-142.

When we did our first book on children out of school in this country, we found 2 million children not enrolled in any school. In going through census tracks all over the country, we found handicapped children out in every district. We have made substantial progress. There are now only a million—even though that is still an unacceptable number—children who are not enrolled in school. And much of the progress that has been made in the last few years has been because of Public Law 94-142. Rather than eliminating it, I think we should be strengthening it.

POVERTY IS NOT DEAD

Third, there is a perception around that poverty is dead. Martin Anderson, the chief domestic adviser to the President, has asserted that if you count food stamps, low-income housing supplements, and all the rest, poverty is eliminated. We just simply want to say that that is not true. Despite the substantial progress as a result of specific programs, we still have an unfinished agenda in bringing many of the poor into the mainstream of American life.

Even after all nonmoney benefits are counted, we find 23 percent of all blacks still poor, and a black child born today has nearly a one in two chance of being born into poverty. We hope that this unfinished agenda will not be ignored and that the needy, who are going to be drastically affected, will be taken into consideration.

We find that when we have examined the impact of these budget cuts in six specific areas affecting children, we believe, contrary to the assertion, they will not save money or increase efficiency. Indeed, we find it very hard to believe that by continuing to invest in costly remediation rather than prevention, which is what we propose, anybody can contend that we are going to save money.

Not only will homeless children be hurt, but the American taxpayer will continue to bear the burden, in the instance of our child welfare system, of maintaining children for an average of 5 years in costly foster and institutional care. That will cost us far more money than attempting to keep families together or place children for adoption when appropriate. In fact, the Department of Health and Human Services estimates that if we implement these child welfare reforms and try to keep children together in their own families and give children a chance to get adopted—and thereby reduce the number of children in out-of-home care, by as little as 30 percent that we might save up to $4 billion over 5 years.

We can point out, as we do in our black book, which I hope will be included in the record,[1] that in many of the other instances where the administration is cutting and proposing to dismantle vital children programs, the result will not be to save money, but will be to cost us all far more in remediation and in lost tax dollars through continued dependency.

REMEMBER FUNDAMENTAL VALUES

I hope that as you seek to mark up the first budget resolution for 1982, you will remember certain fundamental values which this country has already stood for—civil rights and economic justice. I know that the current national atmosphere and the current national rhetoric makes this very difficult, because it tells us all that we are not safe enough or strong enough to work our purposes; that we are full of opportunity for everybody willing to grasp it; that there are a lot of freeloaders not willing to make the effort and that if we just make them roll up their sleeves and go to work, we can get the economy going again.

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[1] See p. 445.

It tells us, as I indicated earlier, that the race problem is solved and that poverty has been eliminated. It tells us that the only demons on the horizon are inflation and the Soviet Union. This has led us to cries for indiscriminate increases in defense spending and reliance on an economic policy of putting more dollars into the hands of the affluent through untargeted tax cuts. It assumes that the rich will be wise enough to save or spend it in ways that will get the economy going.

These steps, it is claimed, when combined with the effort to balance the Federal budget, should turn us around. I hope so, but I also hope that until we are turned around, we will avoid in the interim scapegoating the poor and minorities, and particularly children, who have already lost great ground in the last decade as a result of the economy, as a result of growing inflation 'as a result of unemployment, and as a result of declining national commitment to social programs for the poor.

I hope you will be fair. As these budget cuts are now proposed, they are deeply unfair to the young, and I cannot square that with our calls for national security in the long run, because it is going to be strong families and strong children that are going to make a strong nation.

Chairman **Domenici**. Thank you very much.

TESTIMONY OF MARIAN WRIGHT EDELMAN
PRESIDENT, CHILDREN'S DEFENSE FUND
BEFORE THE
U.S. SENATE BUDGET COMMITTEE

APRIL 6, 1981

I am Marian Wright Edelman, President of the Children's Defense Fund. Thank you for providing the opportunity for me to testify about the impact of the proposed Reagan budget cuts on the groups of our citizens who can least afford to sustain them -- children.

I am not here today to defend big government or every federal categorical program, or claim that government has not been guilty of excesses, inefficiency and failures to achieve the best bang for the buck.

I am not here either to cling to the past or to discard those constructive lessons, programs and approaches from which millions of Americans have gained.

I _am_ here to urge you to remember, as you begin to mark up the First Budget Resolution for 1982, that this country has always stood for certain fundamental values: civil rights, human rights, economic justice. And I am here to say that because of the current economic crisis it is critically important in the '80's that we remember these values and work to maintain equilibrium in adding "more to the abundance of those who have more while providing enough for those who have too little."

The current national rhetoric makes this difficult. It tells us that America is not safe enough or strong enough to work its purposes; that we are full of opportunity for everybody willing to grasp it; that there are a lot of freeloaders not willing to make the effort and that if we make them roll up their sleeves and go to work we can get the economy working again. It tells us that the race problem is solved and that poverty -- when you count food stamps, housing supplements and other in-kind benefits -- has been eliminated; that the only demons on the horizon are inflation and the Soviet Union. This rhetoric leads to cries for indiscriminate increases in defense spending and reliance on an economic policy of putting more dollars into the hands of the affluent through untargeted tax cuts. And it assumes the rich will be wise enough to save or spend it in ways that will get the economy going. These steps, it is claimed, when combined with the efforts to balance the federal budget, should turn us around.

I hope so. But I also hope that until we are turned around, we will in the interim avoid scapegoating the poor and minorities who have already lost ground in the last decade as a result of a waning economy, growing inflation, unemployment and declining commitment to social programs for the poor. If we count food stamps, housing supplements, and other in-kind benefits, the incidence rates of poverty are, indeed, much reduced. But millions of American families of all races are still not able to meet their basic survival needs. Many of these families are working but cannot squeeze the cost of adequate nutrition, heating bills, and preventive health care out of their limited budgets.

The poverty rates among blacks, and particularly black children, remain astoundingly high. 22.7 percent of all blacks remain poor even after all non-medical benefits are counted as if they were money income. At least one in four black children remains poor.

Counging only income, a black child born today faces nearly a one in two chance of being born poor. One in six of all children is poor, making them the poorest of any age group in America. If President Reagan's "Black Book" beomces policy they will become still poorer.

I am as much for strong national security as you and most Americans, and see the need for a strong defense on the same grounds George Washington set forth in his first annual address to both Houses of Congress in 1790, when he said: "To be prepared for war is one of the most effective means of preserving peace." But that should not mean we cannot ask hard and specific questions about the defense budget.

This is a time when all of us must be tough-minded about our priorities. We at the Children's Defense Fund have tried to be. We recognize that the nation cannot afford to throw money thoughtlessly at any of our problems. But we also cannot afford to neglect problems that will undermine the productivity of coming generations and cost all of us as taxpayers far more to resolve in the future. In our view, if the Reagan Administration proposals affecting children which we discuss here are accepted by this Congress, millions of children as well as taxpayers will pay now as well as later.

The Children's Defense Fund has recently published A Children's Defense Budget: A Response to President Reagan's Black Book.* The document contains detailed information on the impact of the President's proposals in six critical areas for children and families: programs that are successfully serving poor, homeless and handicapped children and their families; programs designed to meet basic survival needs and ensure minimum opportunity for the most vulnerable children in our country. They are:

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*See p. 445.

(1) The Adoption Assistance and Child Welfare Reform Act of 1980.

(2) Title I, the education program serving disadvantaged children.

(3) The Education for All Handicapped Children Act.

(4) Medicaid Preventive Health Programs for Children.

(5) Head Start and Title XX Day Care and Social Services.

(6) AFDC Benefits, Food Stamps, and Child Feeding Programs.

I hope you will use this book as a resource in your deliberations. In it, CDF tried to provide a thoughtful analysis of the administration's budget proposals, and to apply the administration's own standards to the actual proposals. In each case, we have asked and answered the question:

Is this proposal pro-family?

Do these cuts avoid hurting the truly needy?

Do these proposals encourage self-sufficiency?

Are these proposals cost-effective?

In too many cases, the answer is a resounding "no".

Regardless of what they are saying, what the Reagan Administration is doing is hacking away at programs that are the lifelines of millions of the poorest families and children who will become hungrier, colder, and sicker than they already have. Millions of AFDC recipients, 7.2 million or 66 percent of whom are children receiving an average monthly benefit of $93.13 (or $3.10 a day), are being asked to bear severe, across-the-board cutbacks in food stamps, Medicaid, AFDC, child nutrition, and social services. One out of every eight dollars now spent on these four social programs on which millions of the poorest children depend is being cut. The combined impact of these cutbacks is profoundly inequitable and will be devastating to already barebones lives.

A welfare family of four in Texas now receives $1,680 in AFDC and $2,568 in food stamp benefits for a total of $4,248 a year. If President Reagan's proposals are enacted, this family will:

- Lose about $350 a year in food stamp benefits as a result of the Helms school lunch amendment.
- Face cutbacks in Medicaid benefits which will require more out-of-pocket money for currently provided Medicaid services.
- See their unindexed benefit levels, already reduced through inflation by 12 percent since 1976, decline further.
- Have their heating bills and stress rise while their low income energy assistance, housing supplements, child care and other social services decrease.
- Watch the previously targeted compensatory education programs for their disadvantaged children under Title I or special education programs for their handicapped children be cut back or wiped out.
- See their children find fewer and less nutritional meals available to them at Head Start and day care centers because of child care feeding cuts.

The recent Reagan Administration announcement that seven programs, including Head Start, summer jobs, Medicare, and Social Security benefits for the elderly, would be shielded from their budget knife was politically clever as well as being a step in the right direction. But it was by no means enough. Promising not to cut Head Start, which we applaud, cannot be done at the front door while CETA jobs and Title XX Social Services and child nutrition funds on which Head Start children and families and centers also rely, are cut at the back door.

As concerned as we are with the across-the-board cuts in AFDC and Medicaid for our poorest children, we are even more concerned with the proposed elimination of protections for homeless, handicapped and educationally disadvantaged children. Through program consolidations under the guise of controlling the budget, the Administration is virtually dismantling new child welfare and adoption reforms as well as targeted programs in education, social and health services that have been at the heart of our national commitment to the disadvantaged, the homeless, the handicapped, the sick and the vulnerable, and to our promise of equal opportunity for all citizens.

It is healthy to re-examine our national programs and policies periodically to determine what has worked, what has not, and why. Like Franklin Roosevelt I believe, "It is common sense to take a method and try it. If it fails, admit it frankly and try another." The converse is equally true; if a method has worked, stick with it while adjusting to changing needs and times and target groups.

This simply has not been done in the case of many of the proposals before you now. We have heard a lot in recent weeks about waste, fraud and abuse in our federal programs. We have heard about red tape, paperwork and inflexibility, and about bloated bureaucracies, excessive administrative costs and over-regulation.

We have heard almost nothing about the other side of the ledger -- the credits -- the programs and policies which do work and which are cost-effective.

So what I want to do with my few minutes today is to focus on some of the programs which do work for thousands and in some cases, millions of American children.

CHILD WELFARE AND ADOPTION ASSISTANCE

The Adoption Assistance and Child Welfare Act (P.L. 96-272) has been law for less than a year. It was approved with strong bi-partisan support after years of study by the Congress. It offers the hope of permanent families to over 500,000 homeless children in this country. It is intended to address the gross state neglect of these children, and will stimulate systemic child welfare reforms and long range cost savings as well. The Department of Health and Human Services, for example, estimates that implementation of the law will result in savings of more than $4 billion over the next five years as a result of reducing the number of children in foster care by 30 percent.

In spite of its benefits, the administration proposes to repeal the Adoption Assistance and Child Welfare Act and to allow the current system in which lives and dollars are being wasted to continue. The federal leadership anticipated by the act and necessary to stop the neglect and abuse of these children would be undermined.

If implemented, this Act will stimulate states to reverse their current, expensive policies of placing children in inappropriate foster care settings by offering alternatives including preventive service programs and adoption. In states and communities where these alternative services have been tried, they have worked. For example:

- In 1977, the state of Washington passed legislation mandating crisis intervention services for "families in severe conflict." About 40 percent of these services were delivered to the entire family in their own home. Washington state officials say that the legislation and an increased emphasis on finding permanent homes for children saved the state about $2 million in a six-month period alone.

- During a three year period ending in November 1978, the state of Iowa's Department of Social Services ran, within a seven-county district, a group of preventive services programs for children who had been determined to need institutional care. The services were delivered to families in their own homes. The department estimated their savings from these programs at over $1 million.

- A permanency planning effort in Oregon which provided intensive services to 509 children who had been in foster care a year or longer and were believed to have little chance of being reunited with their families, resulted in 29 percent of the children being returned to their families, and 36 percent being adopted. During the three year period of the project it was estimated that over $1 million in direct room and board payments were saved.

The Administration's current proposal to place the Titles IV-B and IV-E child welfare, foster care and adoption assistance programs in a social services block grant with other health and social service programs and to reduce their combined budget by 25 percent from FY '81 levels would eliminate the targeted funding and protections for children which are an essential part of this law. Without the federal direction, innovative service programs will not be forthcoming. Rather, we can predict that if this program is killed and replaced by a block grant:

- Children will continue to be separated from their families and placed in foster care without services first being provided to prevent the need for placement.

- Over 500,000 children will continue to linger in costly foster family homes, group homes, and institutions, away from their families, many for an average of five years.

- Most of these children will continue to be denied permanent families. They will not be returned home or provided new permanent families through adoption.

- States facing huge cutbacks for all social services will have no incentive to target funds for new services to prevent placements or reunite families, or for adoption assistance payments, all of which will result in long range cost savings.

If we cannot protect homeless children in this nation, what can we do? If this group of children is not truly deserving and needy, then who is?

TITLE I, ELEMENTARY AND SECONDARY EDUCATION ACT

Amid the reports we hear about the failures of our public schools, there are success stories--rarely heard--which deserve to be told. One of these is the story of Title I, the program providing crucial educational services to disadvantaged children. In the first years after authorization, (it was enacted in 1965) for most practical purposes, Title I programs operated like a block grant and children were not being helped significantly with their remedial problems. CDF's first book, Title I ESEA: Is It Helping Poor Children? documented the abuses of state and local educational agencies in providing special services to poor, academically deficient children. School districts used the Title I funds for general aid and purchased swimming pools, school buses, cafeterias, and even vocational education buildings. The HEW Audit Agency later validated CDF's findings. Finally, after seven major revisions of the law and regulations, Title I is working well.

In the state of Ohio, for instance, 135,000 children participate in Title I. More than 120,000 of these have gains on reading tests that average twice the normal gains expected for children during the school year. Over 17,000 children have gains on math tests that average three times the normal gains expected for children during the school year. Under the Administration's budget plan, about $23 million dollars will be cut from the 1981-82 Ohio Title I program, resulting in 38,598 fewer children being served and 1,103 teachers losing their jobs.

Other states and thousands of children would be similarly affected:

* Evaluations since 1975 show that Title I students at the first grade level gain 12 months in reading achievement and 11 months in mathematics, in a 7 month period.

* Third graders gain 8 months in reading and 12 months in mathematics--also in a 7 month period.

Children make these gains because Title I provides them with more hours of instruction in reading and math, smaller classes with more individual attention and specially-designed materials than children in regular classrooms. Without the special, carefully designed projects funded by Title I, poor students fall further and further behind their peers in schools, until they are misclassified as "educably mentally retarded" and put in special education tracks, or until they are old enough to drop out of school altogether.

The Administration has proposed to kill this program and create instead a block grant providing local educational agencies with funds to be used broadly for the education of children with "special needs"--including the poor and handicapped. Crucial provisions of maintenance of effort, supplement not supplant, comparability, parent involvement, and requirements that programs be of sufficient size, scope and quality to give reasonable promise of success, would be lost. Yet these are the very factors which have made Title I a success. To eliminate these requirements, through the block granting of Title I would be to eliminate, the federal government's commitment to help poor children escape a life of poverty and government dependency. To eliminate these protections is to take a step into the past, back to the days when Title I was used as general aid, for swimming pools, school buses, and cafeterias. Is this really how we want our federal tax money spent?

EDUCATION OF ALL HANDICAPPED CHILDREN ACT

Like the poor child, the handicapped child has benefited significantly from the targeting and protections of federal elementary and secondary education programs. When the Children's Defense Fund was knocking on doors in hundreds of communities in the early 1970's, we found over 2 million school-aged children out of school. These children were overwhelmingly poor, racial minority, handicapped or nonenglish speaking.

(Our findings are documented in CDF's book Children Out of School in America, 1974). Since the implementation of Title I and the passage of Section 504 and Public Law 94-142, significant gains have been made for children, who were long-time neglected by the public schools. In 1981, we estimate that there are still 1 million children not enrolled in school, but no one can deny that federal laws and their regulations have aided dramatically in helping to provide educational opportunity for the poor and handicapped. Prior to the enactment of P.L. 94-142, The Education for All Handicapped Children's Act, thousands and thousands of handicapped children did not go to school.

I will not go into the many cases of abused and neglected handicapped children documented by Congressional testimony but I do want to share with you some information about the plaintiff children CDF has represented in our law suit Mattie T. v. Holladay, C.A. No. DC-75-13-S (N.D. Misc., February 22, 1979) which, on behalf of all school-aged children classified as handicapped in the state of Mississippi, challenged the failure of the Mississippi Education Agency to enforce children's right to an appropriate education. The plaintiffs fell into two categories: 1) Handicapped children who were either excluded from school entirely, inadequately served in segregated so-called "special" programs, or ignored in regular classes; and 2) non-handicapped minority children who had been misclassified as mentally retarded and placed in inappropriate segregated "special education" classes. Among these children were:

- James, age 14, who had serious learning problems from the time he first enrolled in school. After two years in the first grade and three in the second, James was told not to return to school because he was "too retarded." James was never evaluated to determine the cause of his learning difficulties and, despite the recommendations of his classroom teachers, was never provided with special education services of any kind.
- Jacqueline, 11 years old, who needed assistance walking. Although she lived next door to the elementary school, her school district had never evaluated her needs or provided her with any educational servcies whatsoever. In May 1974, Jacqueline's mother filed a petition with the superintendent of schools, requesting adequate educational services for Jacqueline. She never received a response.
- Julius, age 15, who had a speech difficulty and severely impaired vision in one eye. In the spring of 1970 he was placed in a class for retarded children solely on the basis of an outdated IQ test. Julius remained in that class, located in a trailer outside of the regular school building, for four years. In August 1974, he was transferred to a regular sixth grade class because his district had no special program for children his age.

These children and thousands more like them are now going to school. All evidence affirms that educating handicapped children is extremely cost-effective, saving the tax payers millions of dollars in additional welfare, hospitalization, criminal justice and institutional care costs. With appropriate early intervention some handicapping conditions are reversible, some susceptible to a high degree of amelioration and, in some instances, the multiplying consequences of a disability can be sharply curtailed. Thus, to provide services as early as possible to the very young handicapped child and his or her family decreases the need for later costly remedial and maintenance programs while increasing the probability of self-sufficiency.

Passage and implementation of the federal law have made the critical difference in the lives of thousands of children who otherwise would have had no chance to lead an independent and productive life.

Budget cuts of 25 percent with prospects for more in coming years would be awesome in themselves. Over 65% of preschool handicapped children do not receive any services at the current level under P.L. 94-142, and Title I funds only about 25 percent of all eligible disadvantaged children. But the stripping away of all targeting, procedural safeguards, parent involvement, maintenance of state and local effort, and civil rights provisions, in effect, completely nullifies sixteen years of federal legislation designed to remedy deficiencies of will and/or ability at the state level to provide equal educational opportunity for all children.

The Administration's block grant proposal would destroy both the incentives and the requirements which have made P.L. 94-142 and Title I work. Without these protections, the future of these children will become nobody's responsibility.

MEDICAID AND PREVENTIVE HEALTH

For nearly 13 million poor children in this country, Medicaid is the only source of health care. They are among the poorest and most afflicted of all children in America:

- The child in Washington state with cystic fibrosis, whose mother and father work to bring home a combined income of less than $5,000 per year;
- The foster care child in New York who has been in institutions since infancy and suffers from a congenital heart ailment;
- The two children in Tennessee who suffer from asthma, allergies, and many other medical and dental problems whose mother receives $140 per month to support the three of them.

For most of these children, and millions more like them their only hope for adequate health care is Medicaid.

Because of states' past failure to adequately implement the children's part of Medicaid, urgent child health needs still go unmet. 1 out of 7 American children under 18 years of age (or 9 million children) have no regular source of primary health care. 1 in 5 poor and minority children have not seen a doctor at all in two years. 1 out of 3 children (or over 18 million) has never seen a dentist. Millions of American women lack prenatal care despite high correlations between lack of prenatal care and infant mortality and illness. 7 out of 10 mothers under age 15 get no prenatal care in the first three months of pregnancy; one-fifth get no prenatal care at all. These gaps in preventive health care hurt children and taxpayers who pick up the tab in costlier emergency and hospital care.

Preventive health care works. For example:

- In North Dakota, total Medicaid expenditures per child were 36%-44% lower for children who were screened than for those who were not. Expenditures for in-patient hospital services were 47%-57% lower for those who had been screened.

- In Title V Maternal and Child Health projects the days children spent in the hospital decreased up to 40% as comprehensive preventive health care was provided.
- In Michigan where children are on the second cycle of EPSDT screening, diagnosis, and treatment, the rate of referrals for health problems found through screening has dropped significantly (by 13%) for those returning for rescreens.
- A study by the Center for Disease Control showed that $180 million spent on a measles vaccination program between 1966 and 1974 saved $1.3 billion in medical care and long-term care by reducing deafness, retardation, and other problems.
- A 1977 General Accounting Office report to the Congress found the cost of genetic screening at birth plus early treatment for seven common disorders was less than one-eighth the projected cost of caring for an impaired child over a lifetime, even without taking into account the extent to which inflation would drive up long-term costs.
- Another study examined the costs and benefits of four types of preventive care provided in some early childhood demonstration programs in Texas--vision screening, hearing screening, preventive dental care, and identification of congenital malformations. For each state dollar spent, the study found, more than $8 was saved in long-term care costs and in income loss avoided.

The Reagan Administration proposes to end the Medicaid entitlement and to cap Medicaid spending. In FY '82 federal funds will be cut by a minimum of $1 billion.

By limiting the amount of the federal Medicaid funding to levels far below what is needed for states to maintain their current levels of services, the Reagan Administration's proposals will result in severe Medicaid cutbacks by the states. Because of past budget pressures, most states have already turned Medicaid into a bare-bones program. A further federal budget squeeze will force states to gut their programs. Under the guise of "flexibility," the states will have the responsibility to decide how to distribute the pain among the poor.

From past state practices, we can predict many types of state cutbacks that will result if the Administration's proposals pass:

- States may eliminate millions of already underserved eligible mothers and children from their programs.

States have the option of providing Medicaid to many types of impoverished pregnant women and children, in addition to those who qualify because they receive welfare grants. Thirty-four state presently cover some or all of these mothers and nearly 1 million children. If the federal Medicaid budget is cut, these "optional" women and children--for example, first-time pregnant women and children in a two-parent family--may well be among the first to lose their Medicaid benefits.

- States will sharply reduce or altogether eliminate essential services from their programs.

The federal budget cuts will prevent states from maintaining their current commitment to certain services. Even the Stockman "Black Book" concedes this will happen. States have already faced budget crises in Medicaid. They have been forced to cut or reduce the very health services that keep children well and correct health problems before they become serious and thus more costly.

Forcing states to curtail the availability of essential preventive health services now is the epitome of penny-wise and pound-foolish management and assures escalating health care costs later on:

- It costs the state of Alabama approximately $1,100 to provide a pregnant woman with adequate prenatal care. It costs $20,000 per year, however, for Alabama to pay the institutional costs of caring for a severely handicapped child whose disabilities resulted from his mother's lack of pregnancy-related care.

- Children can get the full preventive health care they need each year for about $325: less than the cost of a 2-day hospital stay.

- Children can get screened for health problems for about $20: less than a Senator would pay for a good dinner in Washington.

- In North Dakota, total Medicaid expenditures per child were 36-44% lower for children who were screened for health problems than for those who had not received timely health exams. Expenditures for inpatient hospital services were 47-58% lower for those who had been screened.

- A Texas study which examined the costs and benefits of preventive care which many children now get (vision screening, hearing screening, preventive dental care, and identification of congenital malformations) showed that for each state dollar spent, more than $8 was saved in the long-term costs and in the income loss avoided.

Moreover, while federal expenditures for Medicaid may decrease, states will be forced to make up the difference out of their own coffers to provide key health services for their poorest citizens. For example, in 1980, the state of Florida ended up spending $42 million in state and local funds to provide health care to financially needy children because they did not invest $31 million to provide Medicaid to this same group. As federal funds for preventive health servcies disappear, they will be more than replaced by state and county tax dollars spent on far more costly care.

Through Medicaid, millions of families can now purchase care that keeps their children healthy and productive. A

Tennessee mother can buy eyeglasses, allergy shots, and other needed health services that allow her two children to remain healthy and in school so that she can work. A pregnant mother in Mississippi receives adequate prenatal care for herself and her unborn child so that both have the chance to be healthy and productive.

The Reagan plan seriously threatens poor, working, two-parent families who survive partly because Medicaid helps supply health care for their children. Withdrawal of health care may force parents to go onto welfare so that they can qualify for the Medicaid their children need.

HEAD START

Finally, I want to underscore for this Committee the importance of Project Head Start, not only for the some 374,000 children and their families who benefit from it; but for the other 80 percent of eligible youngsters who are not yet served, and who will not be even with the dollar increase provided in the administration's budget.

We have no better example of a program which works. It works in many ways. Head Start improves children's health by providing better nutrition, reducing anemia, and helping to identify health problems early, before they become acute. Head Start provides children with a better chance in school, as shown by a series of tests of achievement. And Head Start is a success because it not only involves parents in the education of their children--it also increases their self-sufficiency.

Despite the Reagan Administration's promise not to harm the Head Start program, cuts proposed by the Administration in other areas will seriously affect Head Start centers.

Head Start does not operate in a vacuum. The Office of Management and Budget projects that in FY 82 Head Start will receive:

- $79.1 million from the United States Department of Agriculture for child nutrition programs;
- $26.9 million from the Comprehensive Employment and Training Act (CETA) to hire Head Start staff;
- $12.1 million from Title XX social services.

Furthermore, the proposed abolition of CSA would deny H/S programs $20 million in administration funds. The cap on Medicaid would cost local H/S programs an estimated $5 million.

The Reagan Administration has proposed extreme cuts in each of these three areas as well as in child welfare, food stamps, low-income energy assistance and Medicaid--all programs that Head Start's low-income families depend on for survival.

It is critically important to thousands of poor children and their families that the Reagan Administration has recognized the success of Head Start in its budget proposals. What is needed is to look at the other programs that affect children with the same concern for what works and what doesn't; what helps the needy and what doesn't. Across the board cuts of consolidation programs evade this process--and will hurt the poorest, most vulnerable children.

In conclusion, my main message today is as we rethink our strategies and reassess our goals, as we are now doing, we must take great care to distinguish between what was a failure in conception and what was a failure in implementation or political leadership; between what is method or tactic and what is our fundamental goal.

With the power that this committee and this Congress hold to make decisions affecting millions of the most vulnerable and poor Americans, comes the responsibility to resist the appeal of sweeping across-the-board policy decisions which treat no one fairly, but which treat children particularly unfairly.

This is a time when all of us must be tough-minded about our priorities. We cannot afford to throw money thoughtlessly at any of our problems. But we also cannot afford to neglect problems that will undermine the productivity of coming generations and cost all of us as taxpayers far more to resolve in the future.

We must make sure that we do not erode our national foundation while we are attempting to renovate some of the rooms in our national house.

Chairman **Domenici**. Senator Grassley, I am going to relinquish the Chair to you. I am going to have to leave now, and I understand that Senator Exon has some questions. I do not know if any other Senators are going to be here. I want to thank the witnesses very much for appearing today.

[Whereupon, Senator Grassley assumed the Chair.]

Senator **Grassley**. Senator Exon, I will call on you first. I would like to say, though, that I have to go at 11:30 and I have some questions I would like to ask, too.

Senator **Exon**. Well, why do you not go ahead. I am not cramped for time this morning and I want to explore several things with this panel, Senator. So, if you wish to go ahead with your questions, it is perfectly OK with me.

Senator **Grassley**. OK.

Dr. Rahn, you have discussed the President's economic program with us this morning—I particularly appreciate your explanation of why the individual tax rate reductions are not inflationary—and you touched on the subject of reflows from the tax cuts.

BALANCED BUDGET LIKELY BY 1984

My question to you is, do you think these reflows will be sufficient to help us balance the budget in fiscal year 1984, if not sooner?

Dr. **Rahn**. Our econometric projections show that by 1984, we are likely to have a balanced budget. It is probably unlikely that we will have it much sooner than that. It really depends on the rate of economic growth. But if we do not have the substantial reductions in tax rates, we will not get the kind of growth that we need.

The advantage of these types of tax rate reductions is that they alter the relative prices of work and leisure and saving and consumption. They make work relatively more attractive. They will increase the demand and supply for labor. At the same time, they will also increase the demand and supply of savings. Without those reductions, again, we will not get the kind of growth rate we need, and that is why the tax component is so key to this whole economic package.

ECONOMIC GROWTH KEY TO BALANCED BUDGET

Senator **Grassley**. If I could dig just a little bit deeper, what variables might affect the ability to have a balanced budget in 1984, based upon your study of the President's economic program?

Dr. **Rahn**. Well, the key, of course, is, again, the rate of economic growth. Now, provided that you can keep the growth rate of spending under control, as the Senate has shown, we know that more than any other single factor, it is the State of the economy. This past year, for instance, the reason the budget got so far out of control was that when we went into a period of stagnant economic growth or economic decline, many of the transfer payments were automatically triggered, such as trade adjustment assistance, welfare, food stamps, and so forth.

I do not think we ought to focus that much on the budget deficit. The key thing we need to focus on is increasing real per capita incomes for all Americans—people at the low end, the middle-income, and even the upper-income people. The goal of our economic policymaking ought to be rapid economic growth with improved well-being for all of our citizens.

Even if it takes a couple of additional years to get the deficit in balance, that would not be critical. The tax rate reductions that the administration has proposed will clearly increase the supply of savings more than they would increase the size of the deficit. I can in no way conceive how they would add to inflation. In fact, we strongly believe they would be deflationary.

Hence, we know we will have a falling price level. We will have increased rates of economic growth, and it is this trend that is important.

REDUCING INFLATION HELPS LOWER INCOME PEOPLE

Senator **Grassley**. Do you see a reduction in inflation as helping lower income people?

Dr. **Rahn**. Most definitely.

Senator **Grassley**. How, in comparison to middle-income and upper income people?

Dr. **Rahn**. Well, wealth holders have often been able to protect themselves from inflation, and it is clearly the people at the low end of the income scale or the people who are on salaried incomes who probably suffer most from inflation.

The rate of inflation, of course, depends very much on what the Federal Reserve does, and much of that is outside the direct control of either the administration or you all. I guess you could always make the Federal Reserve a dependent agency of the administration, or go along with Milton Friedman's recommendation of firing Fed members if inflation rates or the money supply grow at too rapid a rate. But the Fed policy is critical there and is the single most important variable in our fight against inflation.

We at the chamber are confident that the Federal Reserve will indeed meet its new targets and will try to achieve much more stable monetary growth than they have achieved over the last 2 years.

ECONOMIC EFFECTS OF 4-YEAR TAX CUT

Senator **Grassley**. Dr. Rahn, last week in our hearings with Secretary Regan, he was asked about the feasibility of stretching the 30-percent rate reduction for individuals over 4 years instead of the President's plan of 3 years.

As an economist with no ties to either the Congress or the administration, would you tell us about the economic effects of stretching out the tax cut over 4 years?

Dr. **Rahn**. It would be detrimental. The longer you stretch out that tax cut, the slower the benefits from it will occur. You will not get the kind of economic growth that we need. If anything, the tax rate reductions are probably on the low side rather than the high side.

Again, the advantage of a tax rate reduction is the change in relative prices it affords. The only benefit from a tax rate reduction comes from changing incentives of people in the system. You do not get the first-order income effects, as the Keynesians had frequently claimed or as most of us have been taught. We have found that those do not exist. You reduce tax rates in order to encourage more work, saving, and investment. The longer you put that off, the less economic benefit you are going to have and the more people will suffer, particularly our low-income citizens.

Senator **Grassley**. Senator Exon?

Senator **Exon**. Thank you, Mr. Chairman.

I wish to emphasize again that I really appreciate you people coming here this morning. In listening to your excellent presentations, I guess that you have tried to sharply draw the issues that we sitting around this table, in cooperation with the administration, are basically concerned about and have to make decisions on.

PUT YOURSELF IN POSITION OF OTHERS

I would suggest something that will probably never work. This country of ours is in deep economic difficulties today, and sometimes I think it might be helpful if those of you representing key segments in our society could, if possible, sit down around a table and try and put yourselves in the position of us here rather than going about what I continue to believe is a system where everyone is out to protect, basically, their own special interest groups, while I recognize that each and every one of you are legitimately concerned about America.

I guess if the divergence of opinions that you represent here today could be put in a positive way, you could come up with a consensus program that we could enact and it would be very helpful to us.

Now, let me get into a few things. In the first place, I would like to say that most or all of the groups that you represent here have been closely associated with me and my political career. In fact, I think all or most of you contributed to my campaign for election to the U.S. Senate. In one way or another, we have consulted in various ways during my short 2-year period in the U.S. Senate.

Also, each of you know, or you should know, that I am somewhat exclusive in the U.S. Senate because all of your scorecards—each and every one of you—I think the junior Senator from Nebraska is the only U.S. Senator who rates 50 percent or less on each one of your magic scorecards.

I say that only to try and set the record straight that I do not go along with all of your points of view. Another way to state that might be that your scorecards that you widely advertise and which generate a great amount of mail in our offices sometimes—"sometimes"—might not be as broad-based and as fair and representative as you would like to believe in your extensive correspondence with those who support your organizations here in Washington, D.C.

With that background, let me go into some specific questions.

ECONOMIC PROJECTIONS INDICATE BALANCED BUDGET IN 1984

Dr. Rahn, do you really believe that if the President's program were enacted by dotting every "i" and crossing every "t," both from the budget cut side and the tax cut side, we would see a balanced Federal budget in 1984?

Dr. **Rahn**. I most certainly do. Our economic projections are very close to those that the administration has come up, and I think historical evidence, again, showing the size of the revenue feedbacks and the economic growth we can expect from tax reductions, supports it.

If you go back through the tax rate reductions we have had in this century, we have found that every one of them has provided more revenue feedback and higher rates of economic growth than had ever been projected beforehand.

Senator **Exon**. You recognize that as an economist, you are in the distinct minority in the position that you have just enunciated?

Dr. **Rahn**. I also recognize that many of the economists who are opposed to this point of view have been dead wrong for the last two decades. I do not feel the least bit bad about being in this particular minority. I find that my minority is growing very rapidly and I will expect that in all likelihood we will soon be in the majority.

Senator **Exon**. Well stated. Let us go back to some of the specifics. Do you really believe that we could be safe in a balanced budget by 1984 with a projected figure by the administration of $500 million in surplus out of a nearly $800 billion budget? Do you not think that that is just a little bit thin as a businessman?

Dr. **Rahn**. No economic projection is precise. If we look at the forecasting record—this past week, we did an analysis of the Congressional Budget Office's record and we found that their forecasts, for instance, in GNP for the 3-year projection, their error rate was about 255 percent. So, we know that economics is not a precise science.

We had projected by 1984 a balanced budget. It would not bother me enormously if it was not exactly balanced. It would bother me substantially if it were $20 or $50 billion out of balance. But if it is close, that is fine.

KEEP FOCUS ON INCREASING REAL RATES OF ECONOMIC GROWTH

I think the key thing we have to keep our focus on is increasing real rates of economic growth so we do not have the type of economic stagnation we have had over the past decade or so. Our average factory worker in this country is now worse off, after taxes and inflation, than he was in 1967. That is a dismal record. We have been focusing on the wrong things.

Senator **Exon**. Well, I certainly recognize that economists are not perfect in their projections, as politicians normally are. I would simply say that I do not think that we should automatically discard some of the signals that have been raised by rather prominent economists that probably have not been any further off base than some of those who did not agree with those projections in the past.

Dr. **Rahn**. Well, sir, in all due respect, I think the committee might be well advised sometimes to go back and take a look at some of the forecasts made by people such as Norman Tooray or Arthur Laffer versus a number of the so-called establishment forecasts or economists. I think you will find that the supply siders over the past decade have had a much better record than the so-called economic mainstream.

Senator **Exon**. You designate yourself as a supply side advocate?

Dr. **Rahn**. Yes, sir.

Senator **Exon**. And you therefore feel that the Reagan program is heavily supply-side oriented?

Dr. **Rahn**. I think it is a supply side-oriented program. It is the program the country needs now to get the economy moving together and help all of our citizens.

CHAMBER OF COMMERCE POSITION ON TAX CUTS

Senator **Exon**. What position did the Chamber of Commerce take with regard to the tax cuts in the 1960's, generally designed as the Kennedy tax cuts, which I believe were actually enacted after President Johnson became President?

Were you as an association supportive of those?

Dr. **Rahn**. I have been with the chamber 14 months and, to be honest with you, I do not know what the chamber's position was back in the 1960's. I would not even be surprised if they had what we would now consider a wrong position back then.

Senator **Exon**. I cannot believe that.

Dr. **Rahn**. The chamber has had a lot of changes in position over the years as we have learned more. Hopefully, when we increase our stock of knowledge, we become a little wiser in our decisionmaking. So, whether the chamber was right or wrong back there, I think that is irrelevant.

Senator **Exon**. Well, I only brought that up because you took a rather strong position that the figures that are being endorsed by the chamber now, based on the Laffer curve, are——

Dr. **Rahn**. I did not say they were based on the Laffer curve.

Senator **Exon**. What are they based on?

Dr. **Rahn**. They are based on our understanding of how the economy works and the role of incentives in economic growth and incentives to work, save and invest. I am not claiming that the tax rate reductions will automatically, immediately, in all cases, have higher revenues than if we did not have the tax rate reductions. Over the longer run, I think it is clear that we will have higher revenues.

LAFFER CURVE FULLY ENDORSED BY RAHN

I think there is a lot of misunderstanding about the Laffer curve. I fully endorse the notion of the Laffer curve, which merely says that at some point, tax rates can become so high that they diminish revenue. We see that time and time again; I do not think anybody would dispute that.

Senator **Exon**. Well, do you not think that that last statement is a little bit of an oversimplification?

Dr. **Rahn**. Well, that is all the Laffer curve has said. I notice an awful lot of people trying to say they do not agree with the Laffer curve. To me, it is ludicrous to say that you do not believe in the Laffer curve. A person who says they do not believe in the Laffer curve is essentially saying that they believe you could tax 100 percent of a person's income and revenues would stay as high.

Senator **Exon**. Let us go back to the Kennedy tax cut, because I think history, although things do change, can give us an indication of where we are going in the future. From your knowledge of the Kennedy tax cut and your knowledge of the proposed Reagan tax cut, which of those two types of tax cuts, in your opinion, is more supply side-oriented?

Dr. Rahn. Well, they are actually very similar. The Reagan cut, I guess, would be slightly more supply side.

Senator Exon. You say that Reagan's is slightly more?

Dr. Rahn. Yes; President Kennedy's original proposals were more proportional. I am trying to remember precisely, but I think they were just almost precisely proportional cuts to the Reagan proposal that has been made. The Congress did alter the Kennedy cuts slightly and made them slightly less proportional. But they are both very much supply-side oriented tax cuts.

Senator Exon. Is it not true, Dr. Rahn, that the Kennedy tax cuts basically were distributed, when Congress got through with them, about 50 percent to personal cuts and about 50 percent to business cuts? Is it not also true that the present proposal by the administration gives back about $4 to individuals in total costs as opposed to $1 to business?

Dr. Rahn. Well, I think there is a misunderstanding of business versus individual tax cuts. A business is nothing more than a legal form of conducting economic activity. What we are interested in is the portion going into capital formation—the portion of a tax rate reduction that will be saved and invested as opposed to directly consumed.

HIGH PERCENTAGE OF TAX CUT WILL BE SAVED

Now, if you take a look at the Reagan tax cuts, being proportional. we know that a high percentage of that tax cut will initially be saved. That savings rate, of course, will fall over time with any tax rate reduction. Virtually all of the depreciation proposal will go into savings. You only get the benefit from that after initial investment.

One of my staff members here said that two-thirds of the Kennedy tax cuts were personal and one-third were business. But I would bet that if you went through the analysis of the programs, you would find that each was more weighted toward savings and investment.

Clearly, as I mentioned, the 10—5—3 proposal was virtually all savings and investment, and we see that a very substantial share of the personal rate reduction is going to savings and investment.

Senator Exon. Dr. Carlson, I would like to move on to you. I noticed in your opening statement, you said that you and your association basically endorse the President's program, and then you went on and, in fact, most of your statement was, I thought, quite critical, or at least it brought out that you felt that the basic thrust of the program as it affected the realtors and the building industry was quite negative. I guess I was confused by that.

Dr. Carlson. Sir, I was trying to identify areas of improvement and may have emphasized those. But, clearly, in terms of the magnitude of the spending slowdown that the Senate has considered and the administration has recommended, we support that.

TAX RELIEF SIDE IS A CONCERN

We are concerned about the tax relief side and the tax relief being larger than the spending reductions, thereby adding to the deficit, thereby putting pressure on monetary policy, thereby resulting in higher interest, thereby resulting in less investment in housing that would occur because of that.

So, we have made changes to make sure that the tax relief was no larger than spending reductions. We are proposing that. Then, to talk about the point you were bringing up, the composition of the tax relief should be directly more for savings and investment and trimming down the personal income tax reductions. A good proportion of that, we feel, would go into consumption as opposed to investment.

So, we would go not to the Kennedy-Johnson proportion of 1 out of 3 for savings and investment. We would argue very strongly at this particular point that 1 out of every 2 should be directly going to savings and investment. You are quite right that the personal income tax is 1 out of every 4½, which is the worst proportion in terms of direct stimulus for savings and investment that we have had in 20 years.

Senator **Exon**. I really appreciate the fact that you have indicated that you have endorsed some 10 percent in cuts that would directly affect your industry. I think that we are going to be taking a very close look at what is going on in the depreciation area with regard to all construction.

SAVINGS AND LOAN ASSOCIATIONS FACING DIFFICULT TIMES

Since none of you touched on this—you may have in your prepared statements, but I do not believe that any of you have touched on the very great difficulty that we seem to be facing in the savings and loan industry and which is going to be with us in the weeks and months to come.

I guess there are two concerns that I have here. Savings and loan associations generally have been one of the more stable parts of our economy. They are in deep difficulty today primarily because of inflation and high interest rates. I do not think, by and large, we can have any criticism of the overall management.

I guess I would like to ask you, Dr. Carlson, and any of you that have any comment, if you have an opinion on this new problem that I think is facing us in the economic troubled waters. What, if anything, can we do to help the savings and loans association?

No. 1, if we have lots of difficulty in the failures of savings and loan associations, that is going to be bad in and of itself. I suspect, though, that it might have a secondary adverse effect that would be even more devastating, since I suspect that for a large number of the people of the United States, a substantial portion of their net worth is involved in the value of their home.

I am wondering that if savings and loans get into trouble, drying up the money that is available for buying and selling homes, is that not going to have an adverse effect on the price of homes themselves, and if that is true, what should we do about it?

Dr. **Carlson**. You are quite right. With fluctuating interest rates, the savings and loan institutions have to lend long and borrow short, and when short-term interest rates go up, consequently they only have these long-term assets to cover it and they are inadequate.

CHANGE COMPOSITION OF TAX RELIEF

What we need to do is bring down the inflation rate and reduce the magnitude of the variations that we have in short-term interest rates. As you will see in attachment 1,[1] I feel that you must change the composition of the tax relief and make sure that the tax relief is no larger than spending reductions, or you have no influence whatsoever with the President's program on inflation during the next 4 years.

If you do make the changes, then you have a chance of bringing down your inflation rate and your interest rates. But right now, the program will not do that for you. Consequently, that will have an impact upon the savings and loans.

I do think that a prosavings approach will have the secondary benefit of institutions where people place their savings, savings and loans being among those—if you have more direct stimulus for savings, you are going to have more funds flowing into that area.

Also, I think you have the problem in the Congress of considering whether there should be different ground rules that competitive funds operate under. The money market funds, for example, have no reserve requirement, and no other rules of the game either for safety or for monetary policy purposes. I understand the banking committees are looking at whether there should be some changes.

After all is said and done, I am afraid that there are going to be some voluntary and involuntary mergers, which is a polite way of taking care of the financial difficulties that savings and loans will be having in the second half of this year. I am fearful of the fourth quarter, because I suspect that short-term interest rates will be running back up again, thereby threatening those institutions.

HOUSING AFFECTED BY SAVINGS AND LOAN PROBLEMS

Housing is directly affected. The housing industry has been paternalistically tied in with savings and loans. It was a specialized institution in the 1930's to help encourage housing. This institution is now not getting the flow of funds. When they do get the flow of funds, the incentive is not to invest in long-term mortgages unless the fluctuation of interest rates is borne by the borrower instead of the lender. Consequently, housing is adversely affected.

So, it is a structural problem that is hurting housing, let alone the interest rate problem that hurts housing, and also a pervasive view now that somehow housing has been taking more of its share of gross national product in loanable funds, which is not true if you look at the facts. Nonetheless, it is a pervasive view that exists within the administration and among some Members of the Congress.

Senator **Exon**. Well, I just want to say that I heartily endorse your statement that if we expand the tax cuts beyond, in substantial amount, the dollars that we reduce from the budget, we are going to fuel inflation, we are going to fuel deficits, and we are not going to do much about interest rates.

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[1] See p. 195.

I have some more questions, but I will yield now, Mr. Chairman, because I am sure that other members of the panel have some questions.

Senator **Grassley**. Senator Gorton of Washington.

Senator **Gorton**. The AFL-CIO testimony notes that in the early 1970's when the percentage of the GNP expended by the Congress was dropping and, for that matter, when national defense spending was dropping, that nevertheless the inflation rate increased. At the same time, apparently, the monetary growth was quite rapid over that period of time.

DEFINITE RELATIONSHIP BETWEEN FISCAL AND MONETARY POLICY

I would like your comment and the comment of any of the rest of you as to whether or not the mix of Federal spending for human resources, which was going up very rapidly then; national defense, which was going down considerably; or the increase in the monetary supply has a significance on national economic performance and, if so, what that significance is.

Mr. **Cantor**. Senator, I certainly agree with you that there is a definite significance and a definite relationship between fiscal policy and monetary policy. You are quite accurate in noting that the brakes were taken off in the early 1970's, and all of you are aware of the motivation that was behind that. That was a time when inflation was being touched off primarily as a result of monetary policies.

But one of the points that we were attempting to make in the statement was that you cannot draw any kind of causal relationship, that is why we pointed out those events. We are not in any way suggesting that huge deficits are anti-inflationary; do not misunderstand me. It is just that there is so typically a linkage drawn between deficits and inflation. But a review of the record shows that there are many, many other factors.

Ms. **Taylor**. You asked a question on the mix of spending, and I think what comes to mind first is the problems that we run into in terms of the inflationary impact of a relatively high level of defense spending. National defense is necessary whether or not it increases our national productivity.

Senator **Gorton**. Can I interrupt? I want to let you continue your answer, but I may not have been too precise.

At the risk of greatly oversimplifying the matter, we might divide Federal spending among national defense, what we may call capital improvements, and human resource programs. I would like your views, if you wish to share them with us, on what you think the relative impact of changing that balance is.

Now, generally speaking, we do hear that national defense spending tends to be inflationary. At this particular inflationary which was part of that example, of course, national defense spending was declining very rapidly as a percentage of overall Federal spending.

Nonetheless, if you will address your remarks to that, I did not really mean to interrupt you. You can go right ahead.

MIX OF FEDERAL SPENDING CAN HAVE IMPACT ON INFLATION

Mr. **Cantor**. Well, I am not sure I get your point, Senator, but our basic point here is that the mix of Federal spending very, very certainly can have an impact on inflation one way or the other. I believe it gets back to one of the major issues we have with the whole process here.

There are certain kinds of research and development spending that certainly would have a great increase on productivity. Certainly, any kind of infrastructural spending in States and localities, on bridges, roads, and so on, can have a tremendous impact on productivity and on curbing inflation. There are other types of spending that give you an entirely different kind of bang for the buck.

There are certain kinds of transfer payments where you do not look at them as a fiscal policy tool; you look at them as something that helps people and that is necessary.

Again, our issue here is to look at the spending programs and mirror that against the tax programs in terms of how we are evaluating waste and payoffs. I think the program shows up very, very weakly in that context. At the same time, we have a major issue with the whole process, which I think is what you might be alluding to, Senator.

I do not think we would have any question if the President or the committee said that there was waste in the Federal Government and said there were programs that should be changed. If he says that over the next 4 years, he is going to look into every single program and make them more efficient, I think we would applaud that, if for no other reason than to get rid of the waste so that the benefits could really and truly go where they are needed and help people even more.

But I think one of the issues here, again, which I suspect you are bringing up is that there are different programs. Different programs can have different effects, and different tax cuts have different effects. Here, you are dealing in one fell swoop with everything, and I do not think that that is a proper approach.

[Whereupon, Senator Symms assumed the Chair.]

Dr. **Rahn**. I would like to add something to that.

Inflation is essentially a monetary phenomenon and it does not have a whole lot to do with the mix of Federal spending. The impact of the mix of Federal spending is on real rates of growth and the way that it affects incentives. For instance, let us say spending on something like a dam for water conservation—let us assume a dam where the benefits really do exceed the costs in terms of power, flood control, and so forth—that would have a positive impact on GNP.

We find that defense spending has a mix; there are some positive aspects and some negative aspects. A number of transfer payment programs—and it is not to imply that I am against all transfer payment programs because I am not—but a lot of them have a very definite negative impact on GNP and economic growth rates because they discourage work both from the recipients of the programs and from the taxpayers who provide for the programs.

Senator **Gorton**. Go ahead.

CAUSE OF ACCELERATING INFLATION

Dr. **Carlson**. The last time I looked at this was to try to determine what was the cause of accelerating inflation from 1976 to 1980. About one-half of the acceleration was attributable to Government and, as you indicated, the deficit was part of that, and also the competition of the deficit. The Federal Government was shifting from investment in human and physical capital to redistribution of income, which tends to have less of a growth component than if you were investing in human and physical capital itself.

The tax structure—taxes as a percent of operating profits or as a percent of spendable income, whether you are looking at individual or corporate, went up dramatically, thereby discouraging savings and investment during that period of time, and productivity.

The monetary growth, I think, contributed through October 1979 to inflation. It was growing too rapidly and contributing to inflation. Regulations was the other inflationary side.

All of those together were one-half of the acceleration of inflation from 1976 through 1980. About one-third, I think, can be attributed to OPEC itself.

Yes, I think the mix of Federal spending can have an impact as we have, over the years, shifted from investment orientation to a redistribution of income orientation in our Federal spending program. That is not to say that you should not make that tradeoff, but it is a reality. That is one factor that has slowed down the growth.

NOT DEALING WITH EVERYTHING AT THE SAME TIME

Senator **Gorton**. The representative of the AFL-CIO ended his comments with saying that one of his frustrations was that we seem to be—and I think I quote you directly—"dealing with everything at the same time."

It seems to me, however, that much of your criticism and Ms. Edelman's criticism of this set of proposals is that we are not dealing with everything. This question is directed primarily at the two of you, though I would be happy to have the others answer it.

I hope that it is accurate to describe the President's program as consisting of three parts: one, a substantial cut in taxation on an across-the-board or supply-side basis; two, a very substantial increase in growth and in the rate of growth of defense spending; third, a very significant decrease in a number of domestic programs, with the overwhelming emphasis of that decrease in spending in absolute dollars, or at least a decrease in the rate of growth, being directed at discretionary programs rather than being directed at entitlement programs. Some of them cut very substantially.

So, it really does not seem to be dealing with everything, even in the spending area, at the same time. I may be misstating the points that the two of you made, but I want to state them this way so that you can correct me if I am wrong; that except where we can find waste, fraud and abuse, you are saying not only, do not dismantle this set of programs which relate to one or the other social interests which you represent, but at least continue them at their present rate of growth. You are not really interested in cutting them.

I think that at least in Ms. Edelman's testimony, there is an implied—and it may be in the AFL-CIO's also—it is implied that we are going up too fast in terms of defense and that what we really should do here, even if we are going to spend the same amount of money, is transfer some of this increase back into social programs which are subject to cuts.

Third, you are either not enthusiastic about a tax cut program at all or you think it should be much, much smaller. Especially in the labor presentation, what it really came down to, while it was sugarcoated by talking about tax expenditures, and the like, is that you think we ought to increase taxes; clearly, that we ought to increase the percentage of the total production of the American economy which comes to the Government in taxes.

REORIENTATION FROM DEFENSE TO DOMESTIC SPENDING

Now, I guess I have one question, and I think it is a tough question for you and it is a tough question for me as well. If you think there should be a reorientation in this budget from defense spending to domestic spending of any sort, do you have some expertise in the field of defense that can help us decide that we do not need as much as the President proposes in order to provide for the national security of the United States?

What is the goal of our defense policies, and how do we determine as Members of the Congress when we have reached that goal? Is spending fungible? Can we just say, "Well, it is too much for defense; let us cut a little bit out of it and go over to somewhere else," or do we have to treat it on a different philosophical base?

Mr. **Cantor**. Sir, I beg to differ; that really is not our point at all. You are, in effect, asking me to argue or make our point within the context of a budget scenario presented by the administration, and we do not agree with it. We have no feeling that there is any magic number that the budget has to be balanced by 1984 or 1985 or 1983 and a half.

Our point is that there are many, many programs on the books that are doing good. I think we do need an adequate defense. I would be the last to come before you as a defense expert.

I see the whole program as, No. 1, clearly unbalanced; No. 2, aimed at very, very arbitrary targets, which you are forcing me to respond within and which I do not want to do; third, and I think most importantly, based on a kind of notion that has no foundation. What you are saying is, in effect, through the tax cuts we will throw the money at the wealthy, in the hope that they will save and invest. You are saying that through the program cuts, we will take away from the poor and the needy in an effort to make them work harder.

That is the way we see the program adding up. We see it as being terribly, terribly risky in terms of increasing inflation, in terms of postponing goals, and in terms of creating job losses.

DEFENSE SHOULD NOT TAKE FROM SOCIAL PROGRAMS

Ms. **Taylor**. I just wanted to say that the AFL-CIO has never been that increases in defense spending, per se. But last year, we took a very strong position against increases in defense spending should not be at the cost of social programs. We have come into that express tradeoff notion because of this whole budget balancing business.

I think that Senator Hatfield very eloquently argued during the debate on the continuing resolution last December that there is going to be a great cost involved in the unfettered increase in defense spending that we are psychologically preparing for.

The Washington Post, for example, pointed out that between September and December 1980, the increased costs for 47 major weapons systems were accelerated by $47.6 billion. That was in cost overruns and engineering changes and inflationary increases.

So, with defense essentially held safe from the kind of scrutiny that other programs are being subjected to, it may very well be that we will simply pay more money for the same amount of defense protection, and it will be the defense cost overruns, in fact, that will actually squeeze out the other kinds of social spending. That does not really get to the point, necessarily, of which kinds of spending are more inflationary. But when one kind of spending is not scrutinized and another kind of spending is being cut back very seriously and severely in the name of anti-inflation spending, you then have disequal impact.

Ms. **Edelman**. Senator, we recognize that everybody has to be very tough minded in trying to combat inflation, and controlling Federal spending is one step, and only one step, in trying to combat inflation.

We have not tried to defend every social program. Indeed, I would like to submit for the record a very few specific things that we have said deserve to continue because they work; they have had a successful record.[1] We document here that they will save money in the long run.

In a second attempt to be constructive, we have proposed alternative budget cuts, where we think, again, that the groups that have been left untouched can better bear these cuts than homeless, handicapped, and needy children.

ALL ASPECTS OF BUDGET SHOULD BE SCRUTINIZED

Third, it is our position that nobody should be sacrosanct and that all aspects of the budget should be scrutinized for efficiency and for success, and that includes the defense budget. Even though I think fraud and abuse has been grossly overstated in our social programs, I find it very hard to think that there might not be some fraud and abuse or some waste and inefficiency in the defense budget. I think we at least have to question why simple 0.50 caliber cartridges increased at double the inflation rate even though seven times as many were originally ordered.

I have a number of very specific queries that do raise very substantial efficiency questions about cost overruns in specific defense weapons systems. I think you ought to look at that, just as you look at AFDC and medicaid. The point is, it seems to me, to have a fair balance; two, to avoid what I see now as the wholesale, indiscriminate cutting of social programs that do hurt the needy, while leaving untouched many other aspects, including the defense budget.

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[1] See p. 455.

So, I hope you will look very carefully at the very specific and targeted things that we think deserve to continue. We see some things in our own area that we think do not deserve to continue, and have said so. But we think that the burden is on you to do that in all aspects of the budget.

Senator GORTON. Thank you; that is an extremely responsive answer. I want to come back to the AFL-CIO again and ask simply one followup question.

It does seem, at least from this end of the table, that by and large the priorities for which you have fought have been accepted by Congress during the course of the last 10 years. Spending in most of the areas in which you have been very, very interested has increased; I am sure not as much as you would have liked it. You have had some defeats, but you have come a lot closer to being successful with your program than, say, the chamber of commerce or the National Association of Realtors.

At least in the last 3 or 4 years, this has very clearly been accompanied by the worst inflationary situation in which we have found ourselves in the last 20 or 30 years, and also the slowest growth in productivity—a negative growth.

I am sorry; I still cannot see that you are really recommending to us anything significantly different than more of the same. You have tried to explain away the association between these policies and lack of growth and inflation. Nonetheless, they have accompanied one another. How can we really believe that if we simply continue down the same track, we are going to conquer inflation and increase productivity?

Mr. CANTOR. Senator, if you will forgive me, what seems to be said here in this program is that we have had a headache and we have taken aspirin and that has not worked, so now we should jump off a 100-story building. I mean, I really do not see the correlation.

INFLATION NOT RESULT OF DEFICITS IN FEDERAL SPENDING

The point that we are trying to make is that the inflation that we have experienced in recent years—and my colleagues from the chamber have also borne this out—is not the result of deficits in the Federal budget. I do not see it as a result of excess Federal spending. It is a result of some very significant, easily seeable factors, such as OPEC, such as housing costs, such as medical costs, and such as food costs.

It is a not a result of deficit spending. It is certainly not a result, so far as I can see, of excesses in many programs that are in the Federal budget that are necessary programs. I do not see the linkage and I do not share the view.

Senator GORTON. Thank you, Mr. Chairman.

Senator SYMMS. Senator Exon?

Senator EXON. Thank you, Mr. Chairman.

Ms. Edelman, I very much appreciate your being here this morning and being a kind of conscience at the corner of the table down there. I think it is very true that as we make reductions, we have to recognize that children are people who are not very well represented in the lobbying groups. While we are going to have to make some curtailment there, I do sincerely hope that the Congress as a whole will recognize that certain programs that I do not care to enunciate at this time—but you saw certain votes in the Senate last week on programs that affected a very small amount of money, it seems to me, with respect to the overall budget, but went to the heart, I think, of health care.

Sometimes, cuts in programs for health care for infants particularly, and children in general, are penny-wise and pound-foolish because they are going to come home to haunt us in the future.

But I would like to go on to some statements that Ms. Taylor made. You made a point that we hear a great deal about—the unfairness of the tax proposal by the administration; that it is weighted to the wealthy. We get basically into an old argument here about the trickle down theory.

Now, I would hope once again, returning to my earlier theme, that you people who represent differing but very legitimate points of view—and each one of you sitting down there do, in my opinion—if you could kind of come to the realization that those of us who have to make these decisions need not only your points of view, but I generally appreciate the fact that in most instances you have given us alternatives that we should consider, and we will consider those.

CONCERN FOR ACROSS-THE-BOARD TAX CUTS

I guess one of the concerns that I have about the tax cut proposals by the administration is that I think they are generally across the board, and we may be proposing too much in the way of tax cuts as balanced against the reductions in spending.

We hear a great deal about the fact that taxes are going up. The fact of the matter is that even if we adopted the Reagan proposal in toto, we would have more money coming into the Federal Government in the form of total taxes, and part of that, of course, is because of inflation.

Let me get down to a specific case that I happen to know about firsthand. A couple in the range of 29 to 31 years of age with two kids—quite a typical family, I would say—I have been advised, and I know it is true, that they are moderate income people. They would receive from the Reagan tax cut proposal $113 back a year. This couple told me that that really is not going to do them any good.

What is concerning them more than a tax cut is the fact of the high interest rates on their home, the high interest rates on their car, the high interest rates on consumer credit on which they are living, and the cruelest tax of all, inflation, on the other side that is raising the price of shoes and the price of coats and the feeding of their two youngsters. This is what is causing them great havoc.

Therefore, I feel that in this case we have to reduce the amount of total dollars that we are going to give back in taxes. I think we could do more for that particular individual that receives $113 a month if we did not give them anything. That does not mean that we are not going to consider them, but maybe we should talk about some raise in the nominal deduction.

MAKE TAX CUTS SELECTIVE

I just feel that with the situation we have now, unless we can make tax cuts selective, less than the amount that we are going to reduce, percentagewise, the total Government spending, and target that into production areas that are going to create more jobs so that people can do more things—we are not going to work our way out of the economic difficulties we are in unless we can get more people back to work, which is what the AFL-CIO basically represents.

I think the struggle we are having, therefore, is the fact that everybody wants a piece of the pie and everyone is struggling to say, "Do not give it to them; give it to us." There is no way that we are going to be able to do all of that.

I would just like to add, Mr. Chairman, that I am a member of the Armed Services Committee and I happen to know something about the defense needs of the United States. It is very popular these days in some circles to say that we are going way too far on defense expenditures. I have been one that has been strongly supportive because I think we have no other way to go right now, Mr. Chairman, with the threat that is continually being posed by the adventurism of the Soviet Union and their expansionism all around the world.

DEFENSE BUDGET HAS MOST ABUSE AND WASTE

However, I would like to drive home the point that I think has been made very effectively by our panel here today. Certainly, when we look at fraud, waste, and abuse, setting aside the word "fraud," I would say that dollarwise and percentagewise there is more abuse and waste in the defense budget than any other budget, but you do not hear much about that.

Now, I say that after making the point that I am strongly for increased expenditures and I am basically strongly for the recommendations that the President has made, and I will be supporting them in the Armed Services Committee, in this Budget Committee, and on the floor of the U.S. Senate.

I cite as an example the weird circumstances that we run into in the Armed Services Committee with a program that the Navy calls Elf, which is a communications system underground to signal all the submarines. We have been told since I have been here for 2 years that it was fundamental to the security of the U.S. Navy. Now, suddenly, the Navy has changed their minds; they do not want Elf. It is a program that is going to entail $10 to $12 billion.

We get confusing signals all the time out of the people that run the military of this country. Therefore, I do not think that there is anything sacrosanct. I think that while we need massive increases in defense expenditures, and while I would say that waste and abuse is more inherent in military buildup than in food stamps, it is something we have to live with. So, let us try and keep this in perspective.

I really say, Mr. Chairman, that I have enjoyed very much the presentations that have been made by all of you here this morning. I sit through a great many of these types of meetings. I have no more questions, except if you would like to amplify on anything that I have said.

I really appreciate the fact that you have come here to give us your testimony, which I think is expert and I think should be helpful to us.

Senator SYMMS. Thank you very much.

I guess I owe the panel an apology that I missed their presentations, but I have copies of them here and I will look through them.

If there are no further——

Senator EXON. I think Ms. Taylor has something she would like to say, Mr. Chairman.

TAX CUTS HAVE TO BE TARGETED

Ms. TAYLOR. I simply wanted to mention that I think that our tax proposal is very much in line with what Senator Exon is proposing. I am not sure we have the same proposal, but our tax proposal is for a 20-percent social security tax credit for individuals and a 5-percent tax credit for employers, which targets the tax cut much more on the lower and lower/middle-income recipients rather than the high income. It is less loss of revenues out of the Treasury.

On the business incentives side, rather than the 10–5–3, which I think all of us know has tremendous problems with it in terms of its unequal impact between industries and between different areas of the country, we have proposed a reconstruction finance corporation which would have control of $5 billion in tax expenditures that it could target by industry and by area of the country where it is most needed.

We agree very much with what Senator Exon is suggesting, that tax cuts have to be targeted.

Senator SYMMS. Thank you very much. If there are no further questions, the committee is adjourned.

[Whereupon, at 11:58 a.m., the committee was adjourned.]

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Washington, D.C. 20515
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"A CONSTRUCTIVE ALTERNATIVE BUDGET"

An Address By

THE HONORABLE WALTER E. FAUNTROY (D-D.C.)

CHAIRMAN, CONGRESSIONAL BLACK CAUCUS

Delivered Before The

National Press Club

Washington, D.C.

March 18, 1981

Address by
The Honorable Walter E. Fauntroy, Chairman
The Congressional Black Caucus

Wednesday, March 18, 1981

A CONSTRUCTIVE ALTERNATIVE

On February 18, 1981, after proposing to the Congress and the American people his program for economic recovery, President Ronald Reagan issued a challenge to anyone who did not accept his program. He said come up with "an alternative which offers a greater chance of balancing the budget, reducing and eliminating inflation, stimulating the creation of jobs, and reducing the tax burden."

Today, March 18, 1981, the Congressional Black Caucus answers that challenge. We offer the Congress and the American people a better alternative. We call it a "constructive alternative;" constructive because we, like all Americans, want to reduce inflation, increase jobs and productivity, improve our national security and relieve the American people of a growing federal tax burden. We call it an "alternative" because, unlike the Reagan Administration's cold and uneven solution to these problems, our proposal moves us towards the goal of reduced inflation and full employment with a compassion for people, and a sharing of the burdens of these difficult times by the rich as well as the poor.

And the beautiful thing about our constructive alternative budget is that, as the Congress and the American people compare and contrast it with the Administration proposal, they will find that, with respect to our FY 1982 budget which begins in October of this year, we will bring in $27.1 billion more in tax revenues than does President Reagan while spending only $25.8 more than he, with the added bonus that our deficit is $1.5 smaller than the Reagan proposal.

It is significant to note that we achieve this with only a modest decrease in the defense budget of $5.1 billion dollars under the Reagan mark. The General Accounting Office alone has identified over $10 billion in waste in the Pentagon budget.

We achieve it while saving 1.1 million jobs that would be lost if the Reagan cuts were adopted, and $30 billion which those jobs would cost the Federal Treasury in terms of lost taxes and unemployment compensation outlays.

We achieve it while restoring $27.4 billion in cuts which the Reagan Administration proposes in the food and nutrition, education and energy, economic development and income security, jobs, job training, housing and transportation programs of our federal government.

We achieve it because where there is a will to be compassionate and people oriented, we can find a way in this great country to share the burden of economic recovery among all the people.

I need not remind you here, nor dwell long upon the litany of valid criticisms of the Reagan proposal for its unfairness. I need not remind you that it is the most extraordinary attempt by any President in modern times to re-distribute income in this country, with money going from the poor to the rich, while the middle-class comes out about even. I need not remind you that it would alter incomes by giving tax breaks to the better off while significantly reducing programs aimed primarily at the poorest people, both the chronically poor and those thrown out of work. I need not remind you that it would wipe out a generation of programs that were established on the theory that only the federal government can or will aid the neediest members of society. These are the "categorical programs" like compensatory school aid for underprivileged students, and fuel assistance for poor households that the Reagan Administration wants to abolish by incorporating them in unrestricted grants to the state and local governments.

Yes, we do take serious exception to the Reagan budget proposal for fighting inflation and stimulating economic growth, but we do so, not with strident and bitter rhetoric, but with a compassionate, constructive alternative proposal that we hope will lead us not to a stalemate but to reconciliation. We believe we can work this out, together. Indeed, we pledge ourselves to that task in a spirit of mutual respect and cooperation.

The Reagan Budget Proposal and the C.B.C. Constructive Alternative: By Comparison and Contrast

What then are the basic differences between the Reagan Proposal and the Congressional Black Caucus Constructive Alternative? The late Senator Hubert H. Humphrey, co-author with our own Augustus Hawkins of the Humphrey-Hawkins Full Employment and Balanced Growth Act, summed up our differences best in his last speech on Capitol Hill. He said: "The moral test of government is how it treats those who are in the dawn of life, the children; those who are in the twilight of life, the aged; and those who are in the shadows of life, the sick, the needy and the handicapped."

By that standard, the Reagan budget proposal fails the moral test of government; our constructive alternative passes it.

The difference between our proposal and that of the Reagan Administration, the difference in concern for people, the difference in a sense of sharing the burden of economic recovery among the rich as well as the poor; that difference is best seen in a comparison of the $27 billion that we bring in from tax welfare programs for the rich to fund the $27 billion worth of social safety net programs that President Reagan would cut.

We believe that there is something callous and cold about taking $1.8 billion from the food stamp program for the poor, while we continue to allow $1.5 billion in a free lunch program for the rich that we call a three-martini lunch tax expenditure. So we close up that loophole, and restore

$1.8 billion to feed the 22 million people in our country who can barely make it in the wake of two straight years of 10.2% inflation in the cost of food.

There is something cold and indifferent about saying to the nine million low income families on food stamps that if your child receives a 43¢ free lunch at school, it will be taken out of your food stamp allowance at home. Rather than cut the Child Nutrition Program by $1.5 billion as President Reagan would do, we say restore it and bring in the $1.8 billion in tax welfare for a limited number of corporations that is called "deferral of taxes on the income of Domestic International Sales Corporations."

There is something insensitive to human need about cutting $1.1 billion from a Medicaid Program targeted to serve the neediest of the needy while we continue to subsidize certain industries that we allow to treat ordinary income as capital gains, and thus get off with not paying $1.1 billion in taxes. So our constructive alternative says close up that tax loophole, and with that $1.1 billion restore the cuts to the health care of the 22 million poor people we reach with Medicaid.

There's something cold about cutting $800 million in loans and grants to one million of our precious needy students while President Reagan's proposal would continue to allow a handful of rich people to keep $1.3 billion in tax straddles. So we say close the tax loophole, and help a million students get an education.

There is something inconsistent with our economic growth goals about terminating our Economic Development Administration which would provide $865 million in grants and loans to small businesses that would create 239,000 jobs in the most depressed areas of the country, while we allow our bloated oil companies to keep $700 million a year in "foreign tax credits on oil and gas income." So we say close up that tax loophole, and with that tax savings assist thousands of small businesses in developing hundreds of thousands of jobs.

There is something imprudent about taking $1.5 billion out of the search for alternative fuels in the Synthetic Fuel Program, solar energy and alcohol fuel development while President Reagan would continue to allow the oil companies that have been recently treated to deregulation of the prices they may charge for domestically produced fuel to keep $2.9 billion by "expensing oil and gas intangible drilling costs." So we say close up that loophole, and let us continue the search for alternative sources of energy.

There is something callous and insensitive about denying $2.3 billion in social security benefits to 760,000 students who are children of deceased breadwinners, as the President's proposal would do, while we continued to allow oil companies that are reaping enormous increases in profits to keep $2.3 billion in oil depletion allowances. So we say close up that loophole, and with the $2.3 billion give those fatherless students a chance to prepare in college to make it on their own.

I could continue this litany of comparison and contrast of coldness and humanity between these two proposals for at least an hour; but my time is running out and I must not close until I share three things with our President in the White House, our colleagues in the Congress, and our fellow Americans everywhere; Black and White together; young and old together; rich and poor together; Protestant, Catholic, Jew, Muslim and Gentile together.

The first is, that while this Constructive Alternative Proposal comes to you from Black legislators, it is not a program for Black people only. The most serious problems confronting this nation just happen to be reflected most acutely in the Black experience. This is a program for all Americans: the elderly on limited income, most of whom are White; the struggling young all over the nation who want but can't find affordable housing anywhere, most of whom are White; the coal miners whose black lung benefits are threatened, most of whom are White; the sick, the cold, the hungry, the handicapped, most of whom are White; and all of whose burdens would be made heavier by the Administration proposal.

The second thing I want to point out to the American people is that our Constructive Alternative Proposal is based on a different assessment of the root cause of our problems in the nation and the world, and therefore we come up with different, more humane solutions.

In the area of the economy, we tell you the truth in love. Inflation and unemployment in this country are not caused by government spending, government taxation and government regulation. Imprudence in each area contributes to our problems, and we are as determined as President Reagan to root out waste, fraud and abuse. But if we balanced the budget this year, it would only reduce inflation by two-tenths of one percent. If we gave the rich all the tax relief that President Reagan proposes, it would only increase productivity by four-tenths of one percent.

We have not so much a balance-the-budget-problem as we have a balance-of-investment-and consumption-problem. To put it another way, we are producing insufficient quantities of poorly designed products at too high a price. As a result, we are losing market shares in the world at large as well as at home. The consequence: rising unemployment, inadequate profits and therefore reduced investment, still worse productivity, a falling dollar and still worse inflation. Our goal must be to restore productivity and competitiveness of U.S. industry and our other major economic sectors, in domestic and world markets. To do this, we must undertake the most fundamental reassessment of our economic structure since 1932 --or perhaps of all time.

To remedy that problem we must begin to implement the policies called for in the Humphrey-Hawkins Full Employment and Balanced Growth Act. We intend to cooperate with those aspects of President Reagan's program that speak to those policies. The highest priority item on our domestic agenda is the implementation of the President's enterprise zones legislation.

In the area of world affairs, we make the assessment that our world problems do not lend themselves to military solutions. They are social, economic and political in nature, and thus we have emphasized a strong national economy, and food and technical assistance as the primary weapon in the arsenal for our confrontation with Soviet Russia. We favor an improved national security but without wasteful military spending. Thus, the highest priority item on our foreign affairs agenda is to stop the development and deployment of the MX missile under the inspired leadership of our "constructive alternative" Secretary of Defense, Representative Ronald V. Dellums.

The highest priority item on our civil, political and human rights agenda is the extension of the Voting Rights Act.

Finally, let me say that the eighteen members of the Congressional Black Caucus, with the help of God and we believe millions of people of goodwill and compassion, moves out today to garner support for our constructive alternative. Next week, members of the Caucus will be presenting our alternatives before committees of the House. Later this month members of our Constructive Alternative Cabinet will be meeting with Cabinet level officials of the Reagan Administration to discuss areas of agreement and disagreement with their programmatic thrusts.

We offer today to Black people a four point plan for implementing this constructive alternative program. We ask that Black people join us in defending against any assaults on programs that have improved the quality of life for disadvantaged Americans over the past two decades. We ask you to join us, secondly, in offense in seeking new programs to strengthen our communities like the President's Enterprise Zone concept. We ask you, third, to join us in organizing an Action Alert Communications Network in

113 Congressional districts where Blacks comprise 15% or more of the voting age population. And, finally, our plan calls for our reaching out for coalition with those Whites, Hispanics and others of goodwill whose interests coincide with ours in this constructive alternative program.

To all Americans, we say, in the choice between these two alternatives, we are confronted with primarily a moral issue. It cannot be left to the Members of Congress, or insensitive staff at the White House. It cannot be quieted by allusion to waste and fraud in human needs programs only. It is a time to act in the Congress, in the White House, and in our own communities: to [illegible] a commitment to resolve our economic difficulties, one that shares the burden among all people in our society and not just upon the backs of those least able to bear the burden. Those who do nothing but carp at the poor and near poor are inviting shame as well as violence. Those who act boldly and fairly are recognizing right as well as reality.

We recognize that in positing this different assessment and positing these alternative solutions, we are confronting a fierce storm of carefully generated public opinion.

But if it is said of no one else, we are determined that it will be said of the Congressional Black Caucus in the 97th Congress that we did not fear the weather and did not trim our sails, but instead challenged the wind itself in order to improve its direction and cause it to blow more softly and more kindly over the world and its suffering people.

THE
CONGRESSIONAL BLACK CAUCUS
ALTERNATIVE BUDGET RESOLUTION

A CONSTRUCTIVE ALTERNATIVE FOR THE RECOVERY OF THE U.S. ECONOMY

HON. WALTER E. FAUNTROY
CHAIRMAN

Released on:
March 18, 1981

Prepared by:
Congressional Black Caucus
Members & Staffs

CONGRESSIONAL BLACK CAUCUS
ALTERNATIVE BUDGET RESOLUTION

On February 18, 1981, the President presented his State of the Economy Address to the American people with a challenge to national leadership to offer an alternative proposal for economic recovery for the Nation.

Members of the Congressional Black Caucus have accepted that challenge and today submit an alternative budget resolution to the Congress designed to:

1. help achieve a full employment economy aimed at improving the quality of life for all Americans particularly the poor, working and middle income;

2. reduce deficit spending beginning in FY 1982, while at the same time increasing the government's committment to the poor in the U.S. and around the world; and

3. cut waste and abuse in the federal budget so that more resources are made available on an equitable basis to poor, working and middle class Americans.

The impetus for the development of the Congressional Black Caucus Alternative Budget Resolution stems from a fundamental difference between the Caucus' assessment of what is in the best interest of this Nation and its people and that of the Reagan Administration.

Like the Reagan Administration, the Congressional Black Caucus is committed to resolving the problems of high levels of inflation and unemployment, declining productivity, and lagging economic growth.

In contrast to the Reagan Administration, the Congressional Black Caucus does not agree that the federal government is the root cause of inflation and slow economic growth.

The funding which has been restored in the Congressional Black Caucus Alternative Budget Resolution, particularly in the areas of human service programs, was done in an attempt to avoid greater social and economic deprivation in the lives of millions of Americans. The fact is, the American economy is not served by an increase in the unemployment rate. The Congressional Black Caucus budget resolution will save over a million current jobs.

The Congressional Black Caucus believes that the tax incentives which are reflected in this document are a better approach to stimulating the economy, creating and maintaining job opportunities in the private sector. However, the impact of these or any other tax incentives will not be immediately recognized. Therefore, we believe that we are justified in restoring the funding for assistance programs and unemployment programs so that the number of persons adversely affected as a result of the national economy will not be increased. In periods of national economic decline the federal government has a responsibility to respond to the needs of all Americans who are adversely affected.

In the area of housing, the Congressional Black Caucus Alternative Budget recommends that funding be restored to programs which can revive the housing industry, expand the supply of housing, and subsequently create new jobs. The Congressional Black Caucus Budget Resolution would provide for 280,000 units of housing; 105,000 more units of housing, than the Reagan budget allows. In addition, the Congressional Black Caucus budget restores funding for rent subsidy programs and programs which provide an opportunity for home ownership to millions of Americans for whom this goal would not have been attainable.

While President Reagan received an overwhelming electoral victory in the November 1980 elections, only fifty-four percent of the country's eligible voters participated in that election; thus President Reagan's popular vote represents only twenty-seven percent of the voting population in that election. Moreover, the Congressional Black Caucus does not interpret his victory, as many have suggested, to be a mandate to reduce government spending--particularly if the effects of such a reduction would be to rebuff the social, economic, and judicial gains of the last twenty years.

The Congressional Black Caucus shares President Reagan's concern for a strong rational defense capability. However, we do not support his trillion dollar increase in the defense budget over the next ten years, nor do we believe that the cost is justified, in light of its effect on the funding available for those federal programs which address human needs.

The Congressional Black Caucus will support justifiable reductions in federal spending, but not on the backs of the poor and disadvantaged. The Caucus will support increases in the military budget when it is clear that such increases are critical to our national defense and safety. The Caucus will support a tax package that lessens the tax burden on individuals and creates incentives to invest--not a program that is a give-away to the wealthy at the expense of the working poor.

In keeping with these principles, the Congressional Black Caucus rejects the FY 1981 and FY 1982 budgets submitted by the Reagan Administration and proposes a Congressional Black Caucus Alternative Budget Resolution. It is our belief that this Budget Resolution incorporates spending and tax proposals which will contribute to a strong economy in an effective, equitable and compassionate manner. Specifically, the Congressional Black Caucus Alternative Budget Resolution:

(1) Provides increased federal assistance for basic skill development among our nation's disadvantaged students; and maintains student financial assistance programs so that all who desire a higher education may pursue one;

(2) Restores funding for CETA training and employment opportunities for unskilled persons and for youth who have difficulty obtaining employment in the private sector even in the most prosperous of times. The Congressional Black Caucus Budget Resolution would provide 1.7 million CETA slots; 700 thousand more than the Reagan budget;

(3) Maintains health care and financial assistance for low-income children, their families and the elderly, who without such assistance would be relegated to endure substandard health conditions;

(4) Supplements federal subsidies for housing production and provides incentives for the revival of the housing industry, thereby expanding the supply of housing, diminishing the housing inflation, and providing employment opportunities;

(5) Restores funding for critical food and nutrition programs which form the heart of the government's responsibility to make sure that all, regardless of income, have enough to eat;

(6) Restores funding for the federal energy conservation research and development programs to reduce individual and national energy consumption;

(7) Provides for our national security by supporting more money for military personnel, training, operation and maintenance so that our military readiness will be improved; AN increase in funding for new weaponry will only encourage military escalation;

(8) Provides equitable tax relief to the working poor and middle class;

(9) Provides effective tax incentives to all businesses to stimulate investment and job creation.

(10) Terminates unjustifiable tax expenditures.

The Congressional Black Caucus believes that the Alternative Budget Resolution which follows is a better approach toward achieving the goal of improving the nation's economy. Within each budget function, specific programs and funding additions and/or reductions are identified. Explanations for each program change are also included. The budget functions are in chronological order and follow the section on the Congressional Black Caucus tax proposal.

The Congressional Black Caucus believes that the approach we have set forth in the Alternative Budget Resolution will go far in addressing the needs of the people and also stimulate the economy. As reflected in the outline of some of our alternative proposals, it is clear that the Congressional Black Caucus definition of the "social safety net" extends beyond the several programs and the category of individuals identified by the Reagan Administration. What is good for America and the American economy is the welfare of all of its citizens. This must be our number one National priority.

FISCAL YEAR 1981

COMPARISON OF CONGRESSIONAL BLACK CAUCUS AND REAGAN BUDGETS

(IN BILLIONS OF DOLLARS)

	PRESIDENT REAGAN	CONGRESSIONAL BLACK CAUCUS	DIFFERENCE BETWEEN CBC PROPOSALS & REAGAN PROPOSALS
BUDGET AUTHORITY (BA)	710.1	721.5	+11.4
OUTLAYS	655.2	662.3	+ 7.1
REVENUES	600.3	~~600.3~~ 605.2	+5.9
DEFICIT	-55.0	5[illegible] 2	+1.8
FUNCTIONS:			
050 NATIONAL DEFENSE			
BUDGET AUTHORITY	180.1	175.8	- 4.3
OUTLAYS	162.1	161.1	- 1.0
150 INTERNATIONAL AFFAIRS			
BUDGET AUTHORITY	23.7	24.0	+ 0.3
OUTLAYS	11.3	11.4	+ 0.1
250 GENERAL SCIENCE, SPACE & TECHNOLOGY			
BUDGET AUTHORITY	6.5	6.5	-
OUTLAYS	6.2	6.2	-
270 ENERGY			
BUDGET AUTHORITY	5.8	7.1	+ 1.3
OUTLAYS	9.3	10.4	+ 1.1
300 NATURAL RESOURCES & ENVIRONMENT			
BUDGET AUTHORITY	10.4	12.2	+ 1.8
OUTLAYS	13.7	13.8	+ 0.1
350 AGRICULTURE			
BUDGET AUTHORITY	5.6	5.6	-
OUTLAYS	1.2	1.3	+ 0.1
370 COMMERCE & HOUSING CREDIT			
BUDGET AUTHORITY	6.4	7.3	+ 0.9
OUTLAYS	3.2	3.8	+ 0.6

	PRESIDENT REAGAN	CONGRESSIONAL BLACK CAUCUS	DIFFERENCE BETWEEN CBC PROPOSALS & REAGAN POSPOSALS
FUNCTIONS:			
400 TRANSPORTATION			
BUDGET AUTHORITY	25.5	25.9	+ 0.4
OUTLAYS	24.0	24.1	+ 0.1
450 COMMUNITY & REGIONAL DEVELOPMENT			
BUDGET AUTHORITY	8.2	9.5	+ 1.3
OUTLAYS	10.3	11.7	+ 1.4
500 EDUCATION, TRAINING, EMPLOYMENT & SOCIAL SERVICES			
BUDGET AUTHORITY	29.4	32.6	+ 3.2
OUTLAYS	30.6	32.0	+ 1.4
550 HEALTH			
BUDGET AUTHORITY	71.3	72.2	+ 0.9
OUTLAYS	66.7	69.0	+ 2.3
600 INCOME SECURITY			
BUDGET AUTHORITY	249.9	255.8	+ 5.9
OUTLAYS	229.7	230.5	+ 0.8
700 VETERANS BENEFITS & SERVICES			
BUDGET AUTHORITY	22.9	23.0	+ 0.1
OUTLAYS	22.4	22.4	-
750 ADMINISTRATION OF JUSTICE			
BUDGET	4.4	4.5	+ 0.1
OUTLAYS	4.7	4.8	+ 0.1
800 GENERAL GOVERNMENT			
BUDGET AUTHORITY	5.4	5.4	-
OUTLAYS	5.1	5.1	-
850 GENERAL PURPOSE FISCAL ASSISTANCE			
BUDGET AUTHORITY	6.2	6.2	-
OUTLAYS	6.8	6.8	-
900 INTEREST			
BUDGET AUTHORITY	77.2	77.2	-
OUTLAYS	77.2	77.2	-

	PRESIDENT REAGAN	CONGRESSIONAL BLACK CAUCUS	DIFFERENCE BETWEEN CBC PROPOSALS & REAGAN PROPOSALS
920 ALLOWANCES			
BUDGET AUTHORITY	-	-	-
OUTLAYS	-	-	-
950 UNDISTRIBUTED OFFSETTING RECEIPTS			
BUDGET AUTHORITY	-29.3	-29.3	-
OUTLAYS	-29.3	-29.3	-

FISCAL YEAR 1982

COMPARISON OF CONGRESSIONAL BLACK CAUCUS AND REAGAN BUDGETS

(IN BILLIONS OF DOLLARS)

	PRESIDENT REAGAN	CONGRESSIONAL BLACK CAUCUS	DIFFERENCE BETWEEN CBC PROPOSALS & REAGAN POPPOSALS
BUDGET AUTHORITY (BA)	772.4	792.3	+19.9
OUTLAYS (O)	695.3	721.1	+25.8
REVENUES	650.5	677.6	+27.1
DEFICIT	-45.0	- 43.5	+ 1.5

FUNCTIONS:

050 NATIONAL DEFENSE			
BUDGET AUTHORITY	226.3	199.4	-26.9
OUTLAYS	188.8	183.7	- 5.1
150 INTERNATIONAL AFFAIRS			
BUDGET AUTHORITY	17.9	18.3	+ 0.4
OUTLAYS	11.2	11.3	+ 0.1
250 GENERAL SCIENCE, SPACE & TECHNOLOGY			
BUDGET AUTHORITY	7.2	7.4	+ 0.2
OUTLAYS	6.9	6.8	- 0.1
270 ENERGY			
BUDGET AUTHORITY	9.0	10.4	+ 1.4
OUTLAYS	8.7	10.1	+ 1.4
300 NATURAL RESOURCES & ENVIRONMENT			
BUDGET AUTHORITY	7.9	11.2	+ 3.3
OUTLAYS	12.0	12.6	+ 0.6
350 AGRICULTURE			
BUDGET AUTHORITY	5.5	5.5	-
OUTLAYS	4.4	4.7	+ 0.3
370 COMMERCE & HOUSING CREDIT			
BUDGET AUTHORITY	8.2	7.7	- 0.5
OUTLAYS	3.1	4.3	+ 1.2

FUNCTIONS:	PRESIDENT REAGAN	CONGRESSIONAL BLACK CAUCUS	DIFFERENCE BETWEEN CBC PROPOSALS & REAGAN PROPOSALS
400 TRANSPORTATION:			
BUDGET AUTHORITY	20.5	22.9	+ 2.4
OUTLAYS	19.9	21.1	+ 1.2
450 COMMUNITY & REGIONAL DEVELOPMENT			
BUDGET AUTHORITY	7.3	9.3	+ 2.0
OUTLAYS	8.1	10.1	+ 2.0
500 EDUCATION, TRAINING, EMPLOYMENT & SOCIAL SERVICES			
BUDGET AUTHORITY	24.6	36.6	+12.0
OUTLAYS	25.8	34.7	+ 8.9
550 HEALTH			
BUDGET AUTHORITY	83.5	86.8	+ 3.3
OUTLAYS	73.4	77.2	+ 3.8
600 INCOME SECURITY			
BUDGET AUTHORITY	261.8	282.6	+20.8
OUTLAYS	241.4	251.3	+ 9.9
700 VETERANS BENEFITS & SERVICES			
BUDGET AUTHORITY	24.2	24.7	+ 0.5
OUTLAYS	23.6	24.2	+ 0.6
750 ADMINISTRATION OF JUSTICE			
BUDGET AUTHORITY	4.2	4.8	+ 0.6
OUTLAYS	4.4	5.0	+ 0.6
800 GENERAL GOVERNMENT			
BUDGET AUTHORITY	5.1	5.2	+ 0.1
OUTLAYS	5.0	5.1	+ 0.1
850 GENERAL PURPOSE FISCAL ASSISTANCE			
BUDGET AUTHORITY	6.5	6.5	-
OUTLAYS	6.4	6.5	+ 0.1
900 INTEREST			
BUDGET AUTHORITY	82.5	82.5	-
OUTLAYS	82.5	82.5	-

	PRESIDENT REAGAN	CONGRESSIONAL BLACK CAUCUS	DIFFERENCE BETWEEN CBC PROPOSALS & REAGAN PROPOSALS
FUNCTIONS:			
920 ALLOWANCES			
BUDGET AUTHORITY	2.3	2.5	+ 0.2
OUTLAYS	1.8	1.9	+ 0.1
950 UNDISTRIBUTED OFFSETTING RECEIPTS			
BUDGET AUTHORITY	-32.0	-32.0	-
OUTLAYS	-32.0	-32.0	-

CONGRESSIONAL BLACK CAUCUS TAX REFORM

Fiscal Year 1982 Projected Revenues

(in billions of dollars)

Congressional Black Caucus	Reagan
$677.6	$650.5

Major CBC Modifications to Reagan Tax Proposals

1. To Promote Tax Equity

- Reject Reagan 30% individual tax cut	+44.2
- Increase standard deduction (zero bracket amount) from $2,300 to $2,800 for single return; from $3,400 to $4,300 for joint return.	- 9.6
- Increase Earned Income Tax Credit from 10% of first $5,000 with a phase out between $6,000-$10,000 to 15% of first $5,000 with a phase out between $8,000-$13,000.	- 2.3
- 10% nonrefundable social security tax credit for individuals.	-10.8

2. To Stimulate Business Investment and Productivity

- Reject Reagan accelerated cost recovery program.	+ 9.7
- Adopt a phased-in first-year capital cost recovery system for equipment only (modeled after Jorgenson proposal).	- 9.0
- Adopt straight-line, 20 year depreciation schedule for buildings only.	- 0.1

3. To Target Business Investment Incentives to Small Businesses and Economically Distressed Areas	
- 10% non refundable social security tax credit for employer social security payments made on behalf of employees.	- 7.2
- Accelerate depreciation on low-income rental housing (15 years useful life).	- *
- Allow favorable tax treatment for excess bad debt reserves for those financial institutions which make loans to small businesses in economically distressed areas.	- 0.5
4. To Eliminate Unjustifiable Tax Expenditures	
- Terminate deferral of income of controlled foreign corporations.	+ 0.5
- Terminate deferral of income of Domestic International Sales Corporation.	+ 1.8
- Terminate percentage depletion allowance for oil and gas.	+ 2.3
- Terminate expensing oil and gas intangible drilling costs.	+ 2.9
- Terminate foreign tax credit on oil and gas extraction income.	+ 0.7
- Reduce meal deductions by 50% and eliminate other entertainment deductions.	+ 1.5
- Stop subsidizing certain industries by treating ordinary income as capital gains (timber, agriculture, etc.).	+ 1.1
- Limit mortgage interest deductions to $10,000 annually.	+ 0.6
- Eliminate tax straddles	+ 1.3
CBC Projected Revenues	677.6

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* Less than 50 million dollars

A TAX PROPOSAL THAT WORKS

If it were possible to enact an ideal tax cut, it would have the following characteristics:

1. it would be equitably distributed;
2. it would stimulate our economy, putting people back to work;
3. it would be as neutral as possible to all businesses and would not favor big companies over small ones;
4. it would not add to the rate of inflation.

One could hardly characterize the Reagan tax proposal as even remotely meeting the standards of tax equity that we have set forth. For that matter, we are hard pressed to find any objective standard for tax equity which it would meet. While the Administration is quick to state that theirs is not a tax reform proposal, but rather an economic stimulus package, many economists who have appeared before the Ways and Means Committee have characterized it as inflationary.

Specifically, in 1982, the proposed tax cut would amount to $54 billion. In 1986 the price tag would be $220 billion. When asked what the benefits were of such a proposal, the Administration points to statistics on inflation, productivity growth, and employment; dispite the fact that these statistics have been ridiculed by some of the country's leading economists.* One thing is clear, however, the American people did not vote for higher inflation and a raid on the Federal Treasury. Neither should the Congress.

Cutting taxes across the board by ten percent for three years will benefit those in the higher tax brackets much more than the consecutively average taxpayer. By 1984, when the full 30% tax cut would be in effect, factoring in inflation as well as increases in social security taxes, all taxpayers with income under $20,000 would experience an average tax increase of $93. But for the .2 of one percent of taxpayers with incomes of $200,000, the Reagan tax cut would mean an average reduction in their taxes of $19,427 in 1984. The Congressional Black Caucus fails to understand how this Administration expects the majority of Americans to suffer real losses in their buying power while those who are already prospering will have even more.

We think that a more equitable tax policy would provide relief to the working poor and lower middle class who have suffered the most from inflation. Such a tax policy would provide work incentive for the working poor while at the same time benefit the 60% of American taxpayers who take the standard deduction.

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* Otto Eckstein, Professor of Economics, Harvard University; President, Data Resources; Head of Council, Economic Advisors.
Joe Peckman, Director, Economic Studies, Brookings Institute.
Gardiner Ackley, Professor of Economics, University of Michigan.

Thus, we propose that the standard deduction be increased for singles from its present $2,300 to $2,800 and from $3,400 to $4,300 for couples. This would provide real tax relief to those who cannot take advantage of itemized deductions. At the same time we would be delaying the tax entry point for the working poor, thus increasing their working incentives. We would also propose further work incentives by increasing the Earned Income Tax Credit (EITC) from its present 10% of the first $5,000 with a phase out between $6,000 and $10,000 to 15% of the first $5,000 with a phase out between $8,000 and $13,000.

The economic hardship caused by recent increases in social security taxes is another tax burden we would propose to alleviate. By increasing the percentage of tax and by expanding the wage base upon which the tax is imposed to almost $30,000, the buying power of the American public has been significantly eroded. A ten percent tax credit for social security taxes paid by individuals would provide relief to those who have suffered the most by social security tax increases; the middle class taxpayer. To the same extent that the recent rate increase is regressive, hitting the average worker the hardest, a 10% credit would be progressive in relieving the burden.

We similiarly reject the Reagan proposals in the areas of business investment incentives. Under the Administration's plan the concept of the useful life of a piece of equipment upon which our depreciation schedules are based would be eliminated. The Administration would propose a write off schedule which is faster than our major trading competitors, Japan and Germany, provide their industries. The 10-5-3 depreciation schedule supported by the President would place an arbitrary life of ten years for buildings, five years for heavy machinery, and three years for trucks and cars. Such a system would tend to distort business investment toward heavy machinery at the expense of labor and by 1986, one year after the plan would be completely phased in, corporate taxes would be cut by approximately $45 billion or a little more than 40% of projected corporate liabilities for 1986. In addition, the provisions for the accelerated depreciation of buildings create too great a bias for channeling capital into new structures as opposed to more productive investments such as upgrading existing structures.

We realize that new incentives must be given to business so that they can obtain the capital they need to modernize their plans. The Congressional Black Caucus believes, however, that any proposal concerning depreciation should reasonably reflect the real costs of purchasing equipment. Therefore, we propose the adoption of a phased in First Year Capital Cost Recovery system. Under this proposal, distortions in investment decisions which encourage wasteful and inefficient tax shelters would be eliminated. This approach would neutralize the effects of inflation on depreciation. It is designed to replace both the existing accelerated depreciation schedules and the investment tax credit. In essence, it would allow a business to deduct in the first year the value of a proper stream of economic depreciation over the actual life of equipment. This would provide businesses with a current incentive to purchase equipment because they would receive the full present day economic value of all their depreciation deductions in the year of purchase. The phased-in approach would alleviate immediate pressure on the budget. Unlike the Administration's proposal, however, it would not encourage businesses to postpone investment decisions because the reduced depreciation deduction during the phase-in period would be indexed and fully realized, but on a slightly delayed time table.

Increases in social security taxes have fallen most heavily on small businesses and those businesses which are marginally economically viable. Therefore, we propose to provide relief to the entire busines community in the form of a 10% tax credit for social security taxes paid. The 10% credit would slightly more than offset the social security tax rate increases which took effect in January. Because the social security credit is based on wages, it would assist labor-intensive small business, in contrast to the business cuts proposed by the Administration. At the same time it favors labor, it would tend to reduce the current tax laws which are biased in favor of machines.

We also believe that the continued exodus of business and the jobs which follow them from our central cities has had a disproportionate effect on minority communities. Therefore, we would support legislation which is designed to target employment opportunities to urban and rural areas which are economically distressed. Such a program would be designed to attract investment capital by significantly reducing the period it takes for a business to become profitable. This can be done by reducing both start up costs as well as labor costs. The Congressional Black Caucus would support a program which would in targetted areas increase: the rehabilitation tax credit to 25%; provide a 25% investment tax credit for new structures; eliminate the $100,000 investment on the investment tax credit for used machinery; and increase the wage base, as well as the percentage of the credit, for any worker who is employed under the targetted jobs credit from its present $6,000 base with a 50% credit to $10,000 with a 65% credit.

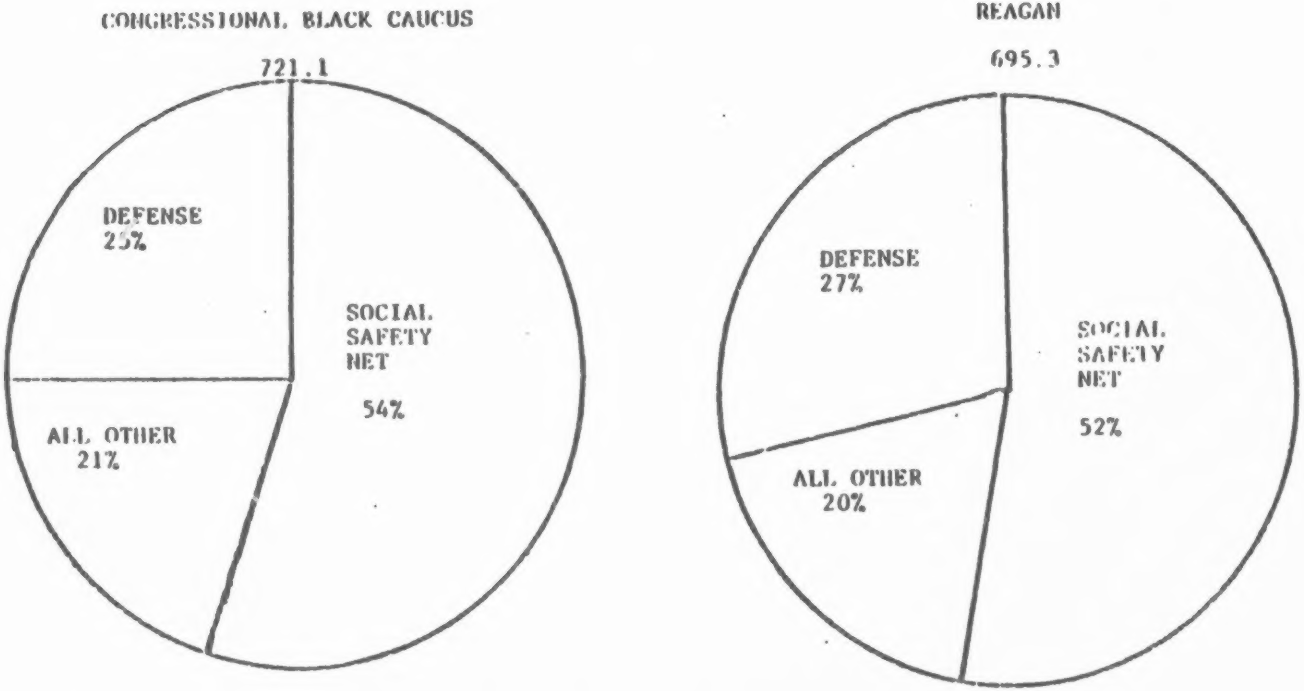
Nowhere is waste and inefficiency more prevalent in government than in the tax system. Yet the corporate lobbyists who are clammering so loudly for new tax subsidies for themselves and budget cuts for workers, consumers, and the needy are silent when it comes to rooting out waste and inefficiency in the tax code.

But unless tax subsidies for unproductive investments are repealed, other efforts to use the tax system to encouage productive investment will fail. Repealing these wasteful subsidies, which divert resources away from productive uses in the American economy, will contribute more to increased productivity than all the billions of dollars in new tax subsidies offered by the Reagan tax program. Terminating these tax subsidies will also enhance the effectiveness of incentives for productive investment by reducing competitive pressures. Such changes also will improve the fairness of our tax laws and produce additional revenues to provide more tax relief for average taxpayers and/or reduce fiscal pressures on the federal government. Therefore, we propose to eliminate the following tax expenditures: Deferral of income of controlled foreign corporations; Deferral of income of domestic international sales corporations, home martgage interest deductions in excess of $10,000, tax straddles, subsidies to certain industries which treat ordinary income as capital gain (timber, agriculture, etc.), percentage depletion for oil and gas, expensing of oil and gas intangible drilling costs, the foreign tax credit for oil and gas extraction income, and to reduce business meal deduction by half and eliminate the deduction of other entertainment expenses. It is the catagories of so called incentives to the oil and gas industry and for expense account living that we find particularly offensive. We find indefensiveable tax subsidies to the oil and gas industry at a time when they are experiencing large profits. There is no justification, considering the President's decision to decontrol oil and current world oil prices, for subsidies to the oil and gas industry. Similarly we cannot understand the justice of allowing businesses to continue to write off meals, when the Administration is proposing to cut back on food stamps, school lunches and child nutrition programs.

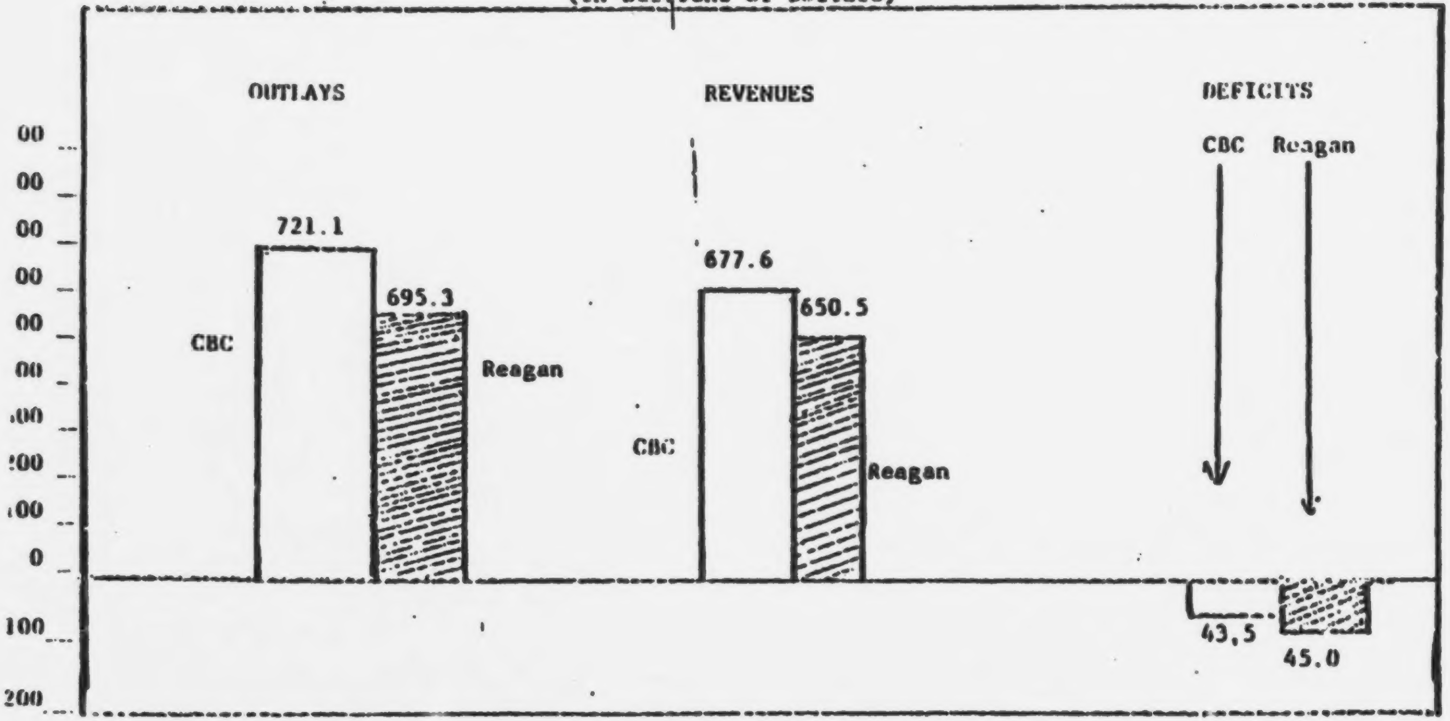
The tax package which we are proposing will provide the incentives necessary to get America working again. Increasing the standard deduction and the Earned Income Tax Credit will give real tax relief and work incentives to the working poor and lower middle class. Providing a tax credit to offset increases in the social security tax will act to relieve the tax burden on middle class Americans in direct proportion to the burden that has been imposed on them and provide relief to employers. At the same time, we would provide real incentives to businesses to invest curently in the new equipment they need in order to compete without distorting the nature of that investment. We have provided for an equitable write off for structures, which unlife 10-5-3, tends to be neutral and does not act as a further incentive for businesses to leave our declining central cities.

It is the belief of the Congressional Black Caucus that our proposal comes very close to meeting the ideals we set forth for a tax cut.

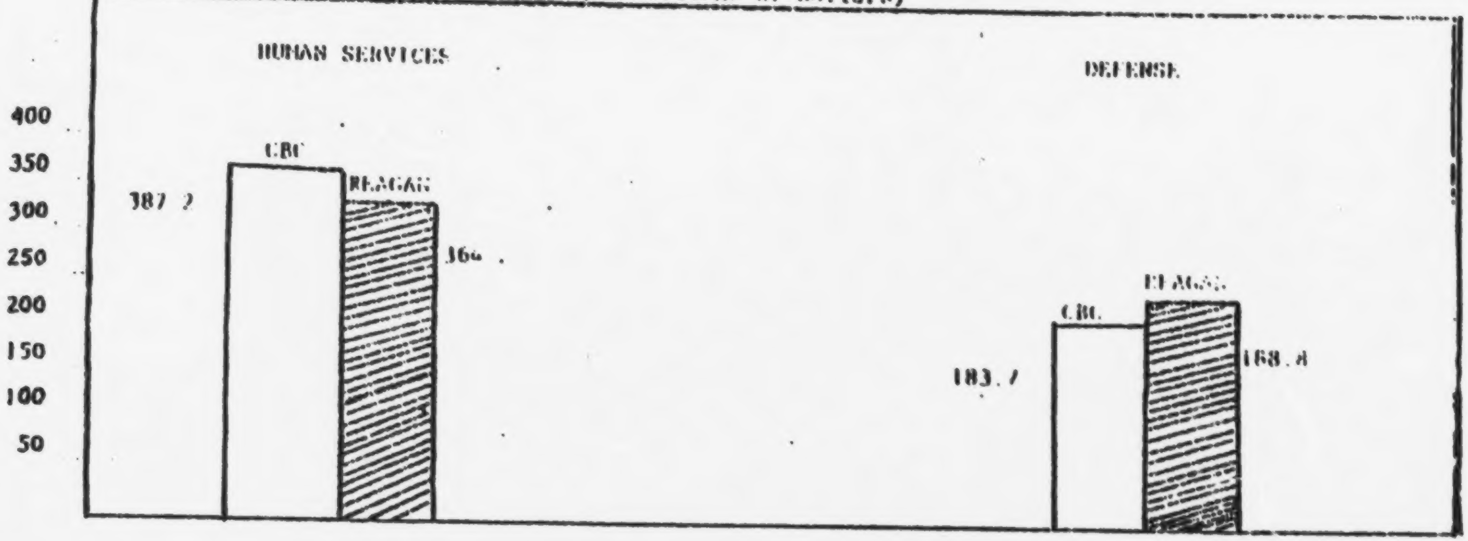
COMPARISON OF BUDGET OUTLAYS FOR FY 1982
(In Billions of Dollars)



COMPARISON OF TOTAL OUTLAYS, REVENUES, AND DEFICITS FOR FY 1982
(In Billions of Dollars)



COMPARISON OF
FY 1982 TOTAL OUTLAYS FOR DEFENSE AND HUMAN SERVICES PROGRAMS
(In Billions of Dollars)



* Based on Total Outlays for Programs in
Budget Functions 500, 550, 600 and 700

FUNCTION 050: National Defense

Congressional Black Caucus				Reagan			
$ in BILLIONS				$ in BILLIONS			
FY 1981		FY 1982		FY 1981		FY 1982	
BA	O	BA	O	BA	O	BA	O
175.8	161.1	199.4	183.7	180.7	162.1	226.3	188.8

Major CBC Additions To Reagan Budget:

	FY 1981		FY 1982	
	BA	O	BA	O
1. Civilian Pay	-	-	+0.1	+0.2

Major CBC Reductions From Reagan Budget:

	FY 1981		FY 1982	
	BA	O	BA	O
1. Administrative Improvements	-1.0	-1.0	-3.0	-3.0
2. Policy Reductions	-6.7	- *	-23.7	-2.1
3. Atomic Energy Defense Activities	-	-	- 0.3	-0.1
CBC BUDGET, TOTALS	$175.8	$161.1	$199.4	$183.7

*Less than $50 million

Explanation:

The CBC alternative budget for activities related to our national defense provides budget authority of $175.8 billion and corresponding outlays of $161.1 billion in FY 1981. In comparison, the Reagan FY 1981 budget provides $4.9 billion more in budget authority and $1.0 billion more in outlays. For FY 1982, President Reagan recommends total budget authority of $226.3 billion and outlays of $188.8 billion. The CBC is concerned that the extraordinary increases sought in the FY 1982 defense budget by the Reagan Administration--$56 billion more than is currently available--will only escalate the national and international trend toward greater militarism. At this level of increase in military spending, the United States would be committed to spending approximately two trillion dollars over the next five years. For this reason, the CBC recommends total FY 1982 budget authority of $199.7 billion and outlays of $183.7 billion. These amounts are $26.9 billion and $5.1 billion less than the respective amounts recommended by President Reagan.

CBC Additions to the Budget

1. Civilian Pay

The CBC rejects the Administration proposal to change the method by which federal civilian pay rates are set. Thus, $131 million in budget authority is restored to the budget for civilian pay.

CBC Reductions to the Budget

1. Administrative Improvements

The General Accounting Office (GAO) has identified a number of management improvements which, if implemented by the Department of Defense, could result in annual savings of over $10 billion by 1985. Accordingly, the CBC budget alternative for defense activities assumes modest savings of $1 billion in FY 1981 and $3 billion in FY 1982 over and above those savings assumed in the Reagan budget attributable to reduced mismanagement and waste in the military budget. Among the areas where savings may be exacted are further realignment and closure of military bases, consolidating base support services, and improved logistical planning and procurement practices.

2. Policy Reductions

The CBC budget alternative for FY 1981 assumes a reduction of $6.7 billion from the Reagan budget for procurement, research and development and military construction. The CBC believes that there is no urgent need for these funds at this time. Furthermore, the CBC seriously doubts that the Pentagon can absorb, in one year, a $32 billion increase in budget authority for procurement, research and development purposes, as proposed by President Reagan. Accordingly, the CBC budget alternative reduces the President's FY 1982 recommendations in these areas by $21.3 billion. New weapons and weapon systems planned by the Reagan Administration which could be eliminated to achieve these savings include five new manned bombers, reactivation of two battle ships, the reactivization of the USS Oriskany, one SSN 688 submarine, one CVN Heavy Aircraft Carrier, sixty A-10 Attack Aircrafts, eight KC-10A Tankers, and the Roland missile system. The CBC FY 1982 budget further assumes the termination of on-going development and procurement of weapons and weapon systems which make questionable contributions toward improving the ability of the United States to respond to or deter military threats. These projects include the MX missile system, the Trident submarine and Trident II missile, the Pershing II ballistics missile, the ground-launched and sea-launched cruise missiles, and anti-satellite weapons.

3. Atomic Energy Defense Activities

The CBC rejects the Reagan Administration's proposal to enhance the nation's nuclear weapon production capability.

CBC Reagan Areas of Agreement

The CBC FY 1982 budget adopts the additional $13 billion provided in the Reagan budget over current appropriations for military pay and operation and maintenance activities. These increases will help to enhance the readiness and abilities of our military forces.

FUNCTION 150: Foreign Affairs

Congressional Black Caucus				Reagan			
$ in BILLIONS				$ in BILLIONS			
FY 1981		FY 1982		FY 1981		FY 1982	
BA	O	BA	O	BA	O	BA	O
24.0	11.4	18.3	11.3	23.7	11.3	17.9	11.2

Major CBC Additions to Reagan Budget

	FY 1981		FY 1982	
	BA	O	BA	O
1. Agency for International Development	+.6	+.1	+0.4	+0.1
2. Peace Corps	--	--	*	*
3. African Development Foundation	--	--	*	*
4. Inter-American Foundation	--	--	*	*
5. Migration and Refugee Assistance	--	--	*	*
6. United Nations Decade for Women	--	--	*	*

Major CBC Reductions from Reagan Budget

1. Economic Support Fund	--	--	-0.1	*
2. Foreign Military Sales and Training Program	--	--	-0.1	*
CBC BUDGET, TOTALS	24.0	11.4	18.3	11.3

*Less than $50 million

Explanation:

The CBC FY 1981 budget authority recommendation for foreign affairs is $24.0 billion, an increase of $300 million over the Reagan Administration proposals. For FY 1982, the CBC recommendations increase the Reagan proposals by $400 million, resulting in a total budget authority of $18.3 billion. These resources are important in promoting a stable internationa environment, strengthening both our domestic and international economies, enhancing the long-term development of less-developed countries, and promoting human rights.

CBC Additions to the Budget

1. Agency of International Development

Restore level of AID development assistance to $1.8 billion, equalling level of program in 1981. Funds essential to continuation of Sahel Development Program, and other agricultural and rural development initiatives in Africa, the Caribbean, and Latin America.

2. Peace Corps

Restore $27 million to original request for Peace Corps of $122 million. Reagan plan would result in up to 25% reduction in the 6,000 volunteers now working in world's 60 poorest countries.

3. African Development Foundation

Restore $5 million for new African Development Foundation. Maintain original requests for agency which achieves 'bottom-up' development by going directly to village level in Africa.

4. Inter-American Foundation

Restore $6.5 million for Inter-American Foundation. Maintain original requests for agency which achieves 'bottom-up' development by going directly to village level in Latin America and the Caribbean.

5. Migration and Refugee Assistance

Restore $32 million to level of original request for Migration & Refugee Assistance to $585 million for Indochinese, Eastern European, Afghan, and African refugees. Seek earmark that 20% of these funds be directed to Africa, which has half of the world's refugees and displaced persons.

6. United Nations Decade for Women

Restore $500,000 to the United Nations Decade for Women and bring to level of original request of $1 million. This program targets development for Third World women who need our support to focus on programs of developmental problems.

CBC Reductions to the Budget

1. Economic Support Fund

Administration has requested $150 million add-on to Economic Support Fund for a $250 million contingency fund. Total $2.5 billion. Caucus seeks to reduce this by $85 million, retaining contingency of $100 million, and redirecting additional economic assistance ($65 million) to Zimbabwe ($100 million/new total), Liberia ($30 million/new total), and Uganda ($20 million/no funds previously proposed).

2. Foreign Military Sales and Training Program

Ten percent reduction in Foreign Military Sales and training programs, targeted for reductions in those countries with poor human rights records, such as Haiti, Phillipines, and Zaire. Savings - $75 million.

CBC-REAGAN AREAS OF AGREEMENT:

1. Administration fully funded $58 million U.S. contribution to replenishment of African Development Fund.
2. Administration fully funded $18 million U.S. capital subscription to African Development Bank.
3. Support provision of $50 million to Sudan in Economic Support Assistance

FUNCTION 250: General Science, Space Technology

Congressional Black Caucus				Reagan			
$ in BILLIONS				$ in BILLIONS			
FY 1981		FY 1982		FY 1981		FY 1982	
BA	O	BA	O	BA	O	BA	O
6.5	6.2	7.4	6.8	6.5	6.2	7.2	6.9

Major CBC Additions To Reagan Budget:

	FY 1981		FY 1982	
	BA	O	BA	O
1. National Science Foundation	+0.1	*	+0.3	+0.2
2. Department of Energy General Science	+ *	-	+ *	+*

Major CBC Reductions from Reagan Budget

	FY 1981		FY 1982	
	BA	O	BA	O
1. National Aeronautics and Space Administration	-	-	-0.2	-0.3
CBC BUDGET, TOTALS	$6.5	$6.2	$7.4	$6.8

*Less than 50 million

Explanation:

The CBC proposes a total budget authority of $6.5 billion in FY 1981 for general science and space technology activities--the same amount recommended by the Reagan Administration, but reflecting different priorities. For FY 1982, a total budget authority of $7.4 billion is recommended by the CBC, a $200 million increase over the Reagan Administration recommendation. Thus, under the CBC recommendations a 14% increase from the current fiscal year to FY 1982 in resources for scientific and space programs would result.

CBC Additions to Budget:

1. National Science Foundation

   - The CBC believes that the general science and basic research programs of the National Science Foundation (NSF) are critical in stimulating technological innovation and in enhancing the long-term health of the economy by supporting basic research. Accordingly, a total of $1.4 billion in FY 1982 budget authority for NSF is recommended. This amount is $320 million or 31% more than the Reagan recommendation. NSF math and physical sciences, engineering and computer science, and science education programs, particularly for women and minorities, would be substantially expanded in FY 1982. The CBC also believes that it is critically important to retain research programs in the biological and social science areas.

2. Department of Energy General Science

   The CBC rejects the Reagan Administration proposal to stretch out and defer construction projects related to research in energy physics, nuclear physics and nuclear medicine. These recommended delays could ultimately result in added costs in the long run. A total of $607 million is provided for the Department of Energy's general science program for FY 1982, $40 million more than recommended by the Reagan Administration.

CBC Reductions From Budget

1. National Aeronautics and Space Administration

For the National Aeronautics and Space Administration (NASA) a total of $5.4 billion in budget authority is recommended for FY 1982--$200 million less than the Reagan Administration. This reduction reflects a deletion of funding for a planned fifth orbitor for the space shuttle. Subsequently, outlays in FY 1982 will be $350 million below the levels assumed by the Reagan Administration due to the savings attributable to the elimination of the cost of the fifth orbitor in FY 1982 and a slower spending rate based on recent trends.

CBC - Reagan Areas of Agreement

The CBC agrees that several projects that would be initiated or expanded by NASA in FY 1982 (Venus Orbiting Imaging Radar Mission, National Oceanic Satellite System, U.S. spacecraft for the International Solar Polar Mission, etc.) should be deferred.

FUNCTION 270: ENERGY

Congressional Black Caucus				Reagan			
$ in BILLIONS				$ in BILLIONS			
FY 1981		FY 1982		FY 1981		FY 1982	
BA	O	BA	O	BA	O	BA	O
7.1	10.4	10.4	10.1	5.8	9.2	9.0	8.7

Major CBC Additions To Reagan Budget:

	FY 1981		FY 1982	
	BA	O	BA	O
1. Energy Conservation	+0.3	+0.1	+0.7	+0.4
2. Solar Energy and Energy Conservation Bank	+0.1	+*	+0.1	+0.1
3. Energy Supply Programs	+1.1	+0.3	+0.8	+1.0
4. Information and Regulation	+0.1	+*	+0.1	+0.1

Major CBC Reductions From Reagan Budget

	FY 1981 BA	FY 1981 O	FY 1982 BA	FY 1982 O
1. Clinch River Breeder Reactor	-0.3	-0.2	-0.3	-0.2
CBC BUDGET, TOTALS	7.1	10.4	10.4	10.1

*Less than 50 million

Explanation:

The CBC FY 1981 budget authority recommendation for energy is $7.1 billion, an increase of $1.3 billion, or 22% above the Reagan Administration proposals. For FY 1982, the CBC recommendations boost the Reagan proposals by $1.4 billion, or 16%, for overall budget authority of $10.4 billion. The CBC alternative budget recommendations for energy will contribute to a national energy policy which promotes diversified energy supplies and energy conservation, thus, lessening U.S. dependence on foreign oil.

CBC ADDITIONS TO BUDGET

1. Energy Conservation

The CBC is opposed to the Administration's position with respect to federal energy conservation programs. An effective energy conservation strategy should be an integral part of federal efforts to reduce the nation's use of energy. In particular, the CBC believes that energy conservation grants for schools, hospitals and home weatherization should be expanded, not dimished. Therefore, the CBC recommends a total of about $900 million in FY 1982 for energy conservation activities —$700 million more than is recommended by President Reagan. The proposed FY 1981 rescission of $254 million for these activities is rejected.

2. Solar Energy and Conservation Bank

The Solar Energy and Conservation Bank was designed to stimulate solar application and energy conservation. The CBC believes that the activities of the Bank would complement ongoing solar energy and energy conservation activities. Moreover, the availability of subsidized loans for the aforementioned purposes represents a significant opportunity for small and minority businesses to participate as full partners in the nation's energy program.

3. Energy Supply Programs

The CBC is concerned about the Reagan Administration's proposals to sharply curtail fossil and solar energy research, development and demonstration, and subsidies for alcohol fuels and biomass programs. The CBC believes that it is important for the federal governemnt to stimulate the development of diverse energy technology and supplies. Therefore, the CBC alternative budget restores budget authority of $1.1 billion in FY 1981 and $0.9 billion in FY 1982 for these activities.

4. Information and Regulation

The Reagan Administration proposes budget authority for the Department of Energy (DOE) information and regulatory activities of $518 million in FY 1981 —$57 million less than the appropriated level—and $491 million in FY 1982. The CBC believes that these proposals are not in the best interests of consumers. The CBC alternative budget, therefore, rejects the proposed FY 1981 rescission of funds for DOE information and regulatory activities, and provides total FY 1982 budget authority of $600 million for these activities.

MAJOR CBC REDUCTIONS FROM REAGAN BUDGET

1. Clinch River Breeder Reactor

The CBC budget alternative assumes discontinuation of the Clinch River Breeder Reactor project, resulting in savings in both FY 1981 and FY 1982 of $300 million in budget authority and $200 million in outlays. This project was originally intended to demonstrate the reliability and safety of a liquid metal fast breeder reactor. However, there no longer exists a need for this project (which has been plagued by costly engineering and technical difficulties) since more advanced technologies are now available.

FUNCTION 300: Natural Resources and Environment

Congressional Black Caucus				Reagan			
$ in BILLIONS				$ in BILLIONS			
FY 1981		FY 1982		FY 1981		FY 1982	
BA	O	BA	O	BA	O	BA	O
12.2	13.8	11.2	12.6	10.4	13.7	7.9	12.0

Major CBC Additions to Reagan Budget

	FY 1981		FY 1982	
	BA	O	BA	O
1. Waste Treatment Grants	+1.7	*	+3.0	+0.3
2. Urban Parks and Recreation Grants	+ *	+*	+0.1	+0.1
3. Hazardous Substance Response Trust Fund	--	--	+0.1	+0.1
4. All Other	+0.1	+0.1	+0.1	+0.1

Major CBC Reductions from Reagan Budget

None

CBC BUDGET, TOTALS	12.2	13.8	11.2	12.6

*Less than 50 million

Explanation:

The CBC FY 1981 budget authority recommendation for natural resources and environment is $12.2 billion, an increase of $1.8 billion, or 17.3% over the Reagan Administration proposals. For FY 1982, the CBC recommendations boost the Reagan proposals by 42% or $3.3 billion, resulting total budget authority of $11.2 billion. CBC recommendations include waste treatment construction grants in both FY 1981 and 1982, restores funds for Urban Parks and Recreation grants, and supports establishment of Superfund at $250 million.

CBC Additions To Budget

1. **Waste Treatment Grants**

   The CBC rejects the Reagan proposals to rescind municipal waste treatment grant funds appropriated in FY 1980 and FY 1981, and the deferral of an appropriation request for FY 1982. Continued funding for municipal waste treatment grants is essential for ensuring high level water quality in urban areas.

2. **Urban Parks and Recreation**

   The CBC budget recommendation includes an increase in funds for grants for urban parks and recreation in both FY 1981 and FY 1982. These funds will provide both employment opportunities and recreational facilities in urban areas with limited economic resources.

3. **Hazardous Substance Response Trust Fund**

   The CBC budget proposal increases the Hazardous Substance Response Trust Fund (Superfund) to $250 million in FY 1982. This increase, $50 million over the Reagan Administration proposal of $200 million for FY 1982, is necessary to ensure that adequate resources are available to control and clean-up hazardous substance spills or sites.

4. **All Other**

   Additional funding has been provided, in EPA, Department of Interior, and Department of Defense, Corps of Engineers for general operating expenses in FY 1981 and FY 1982. These funds will ensure that necessary resources are available to meet legislative mandates across those agencies charged with implementing and monitoring the natural resources and environment function.

CBC - Reagan Areas of Agreement:

1. The CBC concurs with Reagan Administration proposals to target conservation expenditures. These proposals will result in budget authority savings of $10.3 billion and $0.6 billion in FY 1981 and FY 1982 respectively.

2. The CBC also supports Reagan Administration recommendations to eliminate the Youth Conservation Corps on the grounds that it is not targetted to needy groups. The CBC believes the savings from this proposal (budget authority of $32 million in FY 1981 and $60 million in FY 1982) should be redirected to other Federal job programs.

FUNCTION 350: Agriculture

Congressional Black Caucus				Reagan			
$ in BILLIONS				$ in BILLIONS			
FY 1981		FY 1982		FY 1981		FY 1982	
BA	O	BA	O	BA	O	BA	O
5.6	1.3	5.5	4.7	5.6	1.2	5.5	4.4

Major CBC Additions To Reagan Budget:

	FY 1981		FY 1982	
	BA	O	BA	O
1. Commodity Credit Corporation	-	+0.1	-	+0.3
2. Agricultural Credit Insurance	-	+ *	-	+ *
3. All other	-	-	-	+0.1

Major CBC Reductions From Reagan Budget:

	FY 1981		FY 1982	
	BA	O	BA	O
1. Terminate Farm Deficiency Payments	-	-	-	-0.1
CBC BUDGET, TOTALS	$5.6	$1.3	$.5.5	$4.7

*Less than $50 million

Explanation:

The CBC alternative budget for agriculture assumes budget authority of $5.6 billion for FY 1981 and $5.5 billion for FY 1982. These aggregate amounts are identical to those recommended by the Reagan Administration; however, the CBC assumes a funding distribution which differs from the Reagan proposals.

CBC Additions to Reagan Budget

1. Commodity Credit Corporation

The CBC rejects the Administration proposals to curtail the storage facility loan program, to increase the interest rate on loans to farmers and to terminate the mandated first year interest waiver for farmer-held grain reserve loans. These programs are administered by the Commodity Credit Corporation and are an integral part of the "social safety net" for farmers.

2. Agricultural Credit Insurance

The CBC rejects the Administration proposals to terminate interest subsidies for farm ownership loans, farm operating loans and emergency disaster loans. These programs are an integral part of the "social safety net" for farmers.

CBC Reductions From Reagan Budget

1. Terminate Farm Deficiency Payments

The CBC believes that farm deficiency payments could be terminated in FY 1982, saving $90 million, without detriment to domestic agriculture. Other existing agricultural support programs--price support loans and interest subsidies, a multi-year grain reserve, and acreage diversion payments--act to maintain farm income.

CBC - Reagan Areas of Agreement:

1. The CBC agrees that dairy price supports could be limited to 75 percent of parity during FY 1981 and FY 1982. This action would help to reduce the cost to consumers of milk and dairy products and to slow excessive milk production without excessive harm to the dairy industry.

2. The CBC agrees with the recommendation of the Reagan Administration to increase funding for agricultural research and extension activities.

3. The CBC believes that user charges could be imposed to cover the cost of grain inspection and weighing activities.

FUNCTION 370: Commerce and Housing Credit

Congressional Black Caucus				Reagan			
$ in BILLIONS				$ in BILLIONS			
FY 1981		FY 1982		FY 1981		FY 1982	
BA	O	BA	O	BA	O	BA	O
7.3	3.8	7.7	4.3	6.5	3.2	8.2	3.1

Major CBC Additions To Reagan Budget:

	FY 1981		FY 1982	
	BA	O	BA	O
1. Mortgage Purchase Assistance (Government National Mortgage Corporation)	+0.2	+*	-1.8	+*
2. Rural Housing Insurance (FMHA) and Mortgage Insurance Program (FHA)	+0.1	+*	+0.1	+*
3. Postal Service Subsidies	+0.3	+0.3	+0.6	+0.6
4. Small Business Administration	+*	+0.1	+0.4	+0.2
5. National Consumer Cooperative Bank	+0.1	+0.1	+0.1	+0.1
6. Other	+0.1	+0.1	+0.1	+0.3

Major CBC Reductions From Reagan Budget:

None

CBC BUDGET, TOTALS	$7.3	$3.8	$7.7	$4.3

*Less than $50 million

Explanation:

Substantive federal commerce and housing credit programs are essential in helping to revive a declining housing industry and in improving the long-run performance of the economy. Accordingly, the CBC alternative budget recommends budget authority of $7.3 billion and $7.7 billion for FY 1981 and FY 1982, respectively. These amounts compare with a respective $6.5 billion and $8.2 billion recommended by President Reagan.

CBC Additions to Budget

1. Mortgage Purchase Assistance (Government National Mortgage)

The CBC believes that the Administration's proposal to terminate the Tandem Mortgage Purchase program of the Government National Mortgage Associcition (GNMA) would effectively cripple the Section 8 subsidized housing program at a time when there is an acute shortage of rental housing in this country. Under the Administration's propcsal, $2.6 billion in FY 1982 budget authority would be available to GNMA to close out all outstanding insurance commitments. In contrast, the CBC recommends GNMA budget authority of $840 million which would enable GNMA to implement a new Mortgage Purchase Assistance program to encourage lenders to make below-market loans. This grant program (replacing the current Tandem financing mechanism used by GNMA) would support $3.0 billion in Section 8 mortgages

2. Rural Housing Insurance (FMHA) and Mortgage Insurance Program (FHA)

The CBC rejects the Administration's proposed reductions in lending activities by the Federal Housing Administration (FHA) and the Farmers Home Administration (FMHA), which would save $34 million in FY 1981 and $94 million in FY 1982. These activities are critical in affording low- and moderate-income persons assistance in becoming homeowners. In addition, the CBC rejects the Administration's proposal to increase rents for tenants in FHA-owned property from 25% to 30% of annual income, as many persons who benefit from this provision currently find it very difficult to afford adequate and decent housing.

3. Postal Service Subsidies

The proposed reductions in the public service subsidy and in the revenue forgone subsidy authorized for the Postal Service for FY 1981 and FY 1982 are rejected by the CBC. These reductions would result in rate increases over and above the scheduled March 1981 rate increases, and service reductions in rural areas as well as possible job losses.

4. Small Business Administration

In order to stimulate job creation in the minority and small business sector, the CBC recommends a total of $981 million in FY 1982 budget authority for the technical assistance, loan and loan guarantee programs administered by the Small Business Administration (SBA). This amount is $357 million more than proposed by the Reagan Administration and should be accompanied by increased credit limitations on total loan obligations.

Finally, the CBC rejects the proposed FY 1981 rescissions affecting the SBA.

5. National Consumer Cooperative Bank

The CBC rejects the Administration's proposal to terminate the National Consumer Cooperative Bank (NCCB). The CBC assumes total funding for NCCB of $122 million in FY 1981 and FY 1982. This recommendation assumes that both Title I and Title II assistance will be better targeted to minority cooperatives.

6. Other Programs

The CBC budget alternative also assumes an additional $30 million in budget authority in FY 1982 for elderly and handicapped housing, for a total of $805 million. The supply of this type of housing is currently below the level of need, while the population of elderly citizens seeking housing continues to increase.

FUNCTION 400: Transportation

Congressional Black Caucus				Reagan			
$ in BILLIONS				$ in BILLIONS			
FY 1981		FY 1982		FY 1981		FY 1982	
BA	O	BA	O	BA	O	BA	O
25.9	24.1	22.9	21.1	25.5	24.0	20.5	19.9

Major CBC Additions To Reagan Budget

	FY 1981		FY 1982	
	BA	O	BA	O
HIGHWAY PROGRAMS				
1. Highway Construction	-	-	+0.5	+0.1
2. Safety Grants	-	-	+0.2	+ *
3. Other	-	+*	-	-
MASS TRANSIT				
1. Capital Grants	+0.3	+0.1	+0.7	+0.2
2. Operating	-	-	+0.1	+0.1
3. Other	*	*		
RAIL				
1. Northeast Corridor	-	*	+0.3	+0.2
2. Amtrak	*	*	+0.3	+0.2
AVIATION				
1. Airport Construction	+0.1	*	+0.1	+ *
2. Other	-	-	+0.1	+0.1
WATER				
1. Maritime Ship Construction	-	-	+0.1	+ *

	FY 1981		FY 1982	
	BA	O	BA	O
INTERNATIONAL COMMERCE COMMISSION (ICC)				
1. Small Business Development	+ *	+ *	+ *	+ *
Major CBC Reductions From Reagan Budget:				
NONE				
CBC BUDGET, TOTALS	25.9	24.1	22.9	21.1

*Less than $50 million

Explanation:

For FY 1981, the CBC recommends a total of $25.9 billion in budget authority and $24.1 billion in outlays for transportation. This represents a $400 million increase in budget authority and $100 million in outlays over the Administration's proposed funding levels for FY 1981. A total of $22.9 billion in budget authority and $21.1 billion in outlays is provided for FY 1982, representing a 12% and 6% increase over the Administration, respectively.

CBC Additions to Budget

Highway Programs

1. Highway Construction

The Reagan Administration proposes to stretch out and slow down construction of so-called "low priority" projects, effectively reducing overall highway obligations by $1.8 billion. Additionally, lower highway construction costs are assumed as a result of expected reductions in the rate of inflation over the next five years. The CBC rejects this proposal. The CBC restoration of $500 million in BA would preserve current funding levels for urban and secondary system construction, allowing for completion of projects in a timely and cost-effective fashion as currently programmed by state and local governments. Any delay in construction would only lead to increased project costs in the future.

2. Safety Grants

The CBC is appalled by the Administration's position that the safety of the American driver is no longer a priority. The CBC rejects this notion, and specifically, the elimination of the national 55 miles per hour speed limit.

Mass Transit

1. Capital Grants

The CBC rejects the Administration's reduction in Mass Transit Capital assistance. The Administration's reduction would not only have the impact of eliminating all new starts but also the successful Urban Initiatives Program, a major portion of bus and bus facility rehabilitation and minority business assistance. Specifically, the CBC recommendation assumes an increase of $300 million in budget authority and $100 million in outlays in capital grants for FY 1981; a restoration for FY 1982 of the Downtown People Mover System Program at a BA of $35 million, a $200 million BA increase for new starts, $150 BA increase for Urban Initiatives, $338 BA increase for bus rehabilitation, and a $15 million BA increase for minority business assistance. Reagan's proposal would eliminate new rail projects in Los Angeles, Detroit and Honolulu, as well as a new extension in the Atlanta system.

2. Operating

The CBC recognizes the concern of the Congress regarding the increasing levels of Federal support for transit operations. However, the CBC rejects the Administration's proposal to begin phased elimination of operating subsidies in FY 1982. Rather, the CBC assumes funding at the current level for FY 1982, in anticipation of legislative proposals which reform and not eliminate the program.

Rail

1. Northeast Corridor:

The CBC recommendation supports complete rehabilitation and electrification of the Northeast Corridor rail system. The electrification of this system will in the long run reduce energy costs and provide employment opportunities.

2. Amtrak

The CBC recommendation assumes a 40% route elimination by Amtrak--those with the poorest ridership, highest deficits, and least potential. The Administration's proposal would require elimination of some cost-effective routes as well as the least efficient routes.

Aviation

1. **Airport Construction**

The CBC assumes a nominal reduction in airport construction grants from current levels, increasing budget authority by $100 million in both FY 1981 and FY 1982.

2. **Other Programs**

The CBC recommends an increase of $85 million in BA and outlay in FY 1982 for FAA operations, especially in the area of air traffic control.

Water

1. **Maritime Ship Construction**

The CBC recommends an increase of $107 million in BA and $61 million in outlays for continued support of the Maritime Ship Construction industry.

ICC

1. **Small Business Development**

The CBC recommends an $8 million increase in the ICC's budget for the continued expansion and development of small business assistance and other related activities.

CBC - Reagan Areas of Agreement:

	FY 1981		FY 1982	
	BA	O	BA	O
Boat and yacht fees	-	-	-0.1	-0.1

FUNCTION 450: Community and Regional Development

Congressional Black Caucus				Reagan			
$ in BILLIONS				$ in BILLIONS			
FY 1981		FY 1982		FY 1981		FY 1982	
BA	O	BA	O	BA	O	BA	O
9.5	11.7	9.3	10.1	8.2	10.3	7.3	8.1

Major CBC Additions To Reagan Budget:

	FY 1981		FY 1982	
	BA	O	BA	O
1. Community Development Block Grant Program/Urban Development Action Grants	-	-	+0.5	+0.5
2. Rehabilitation Loans	+ *	+ *	+0.1	+0.2
3. Farmers Home Administration and Rural Electric Administration	+ *	+ *	+ *	+ *
4. Economic Development Administration	+0.3	+0.3	+0.7	+0.7
5. Appalachian Regional Commission	-	+ *	+0.4	+0.4
6. Indian Programs	+ *	+ *	+ *	+0.1
7. Federal Emergency Management Administration	-	-	+0.1	+0.1
8. SBA Disaster Loans	+0.8	+0.8	-	+ *
9. Other	+ *	+ *	+0.1	+ *

Major CBC Reductions From Reagan Budget:

None

CBC BUDGET, TOTALS	$9.5	$11.7	$9.3	$10.1

*Less than $50 million

Explanation:

The CBC proposes that a total of $9.5 billion in budget authority for community and regional development be provided in FY 1981, a $1.3 billion increase above the Reagan recommendation. The CBC also proposes budget outlays of $11.7 billion, or $1.4 billion more than recommended by the Administration. For FY 1982, the CBC proposes budget authority of $10.1 billion, or $2.8 billion more than proposed by the Reagan Administration. Corresponding outlays assumed by the CBC are $11.0 billion or $2.9 billion greater than those assumed by President Reagan. These total resource increases reflect the belief of the CBC that community and regional development activities must continue to hold a high priority in the use of the nation's resources.

CBC Additions To Budget

1. Community Development Block Grants/Urban Development Action Grants

The CBC believes that the innovative character of the Urban Development Action Grant Program (UDAG) would be destroyed by the proposed merger of UDAG and the Community Development Block Grant program (CDBG). Rather, the CBC believes that the separate identity of each program should be retained with FY 1982 funding levels of $3.96 billion for CDBG and $675 million for UDAG. These combined amounts represent an increase of $500 million over the consolidated funding level proposed by the Administration.

2. Rehabilitation Loans

The CBC believes that the rehabilitation loan program should be retained as a separate program because of its unique identity and its features as a loan program. This program has greatly contributed toward the revitalization of depressed communities by upgrading their housing stock. Legislative changes made to the program last year should allow the government to recover additional resources through increases in the interest rate which are now tied to an individual's ability to pay. The CBC supports this program at its current appropriated level of $130 million in FY 1981 and $134 million in FY 1982.

3. Farmers Home Administration and Rural Electric Administration

The Administration has proposed reductions in direct loan obligations and grants for rural water and waste disposal systems. These proposed cuts in credit resources for water and waste disposal systems appear to be counter-productive with respect to the other programs of the Farmers Home Administration (FMHA) which are dependent upon completion of these systems. The CBC therefore recommends full funding of the water and waste disposal systems at $575 million in direct loan obligations and $100 million in grants. These recommended funding levels are a respective $200 million and $50 million more than the levels recommended by President Reagan. Moreover, the CBC believes that other proposed reductions in FmHA loan and loan guarantee programs (for rural community facilities, rural business and industrial development loans) should be rejected.

4. Economic Development Administration

The CBC believes that the work of the Economic Development Administration (EDA) in fostering economic development and job creation with grants, loans, and guarantees along with technical and planning assistance should be maintained. For FY 1982, the CBC believes that budget authority for EDA should at least equal the FY 1981 appropriation of $675 million (with $500 million in loan guarantees). This program has been especially useful in developing new capital investment, jobs, and related economic development in conjunction with major projects that have been supported. Accordingly, proposals by the Administration to terminate this program are rejected.

5. Appalachian Regional Commission

The Administration has proposed to terminate the Appalachian Regional Commission (ARC). As a result, the major project of the ARC--the Appalachian Highway--would be funded from the Highway Trust Fund. This would mean substantial delays and probable increases in costs. Accordingly, termination of the ARC and transfer of the highway building program is deemed inappropriate and rejected.

6. Indian Programs

A consolidation of various programs which serve American Indians into one block grant is proposed by the Administration with a projected savings of $40 million in FY 1982. While the CBC accepts this block grant approach, the CBC believes that any savings which might result should be returned and used productively in serving a much abused group of Americans. Thus, a total FY 1982 budget authority of $1.2 billion is assumed in the CBC budget alternative--$40 million more than in the Reagan budget.

7. Federal Emergency Management Administration

The Federal Flood Insurance program is one of the major activities of the Federal Emergency Management Administration (FEMA). The CBC disagrees with the Reagan Administration's intention to increase insurance rates for the subsidized portion of the program. Additionally, since disaster relief and insurance payouts are difficult to forecast, the CBC believes that savings estimated from increases in insurance premiums and administrative improvements are overly optimistic. Thus, the CBC restores the $100 million reduction in the FEMA FY 1982 budget assumed by President Reagan. Total resources of about $544 million would be available to FEMA in FY 1982.

8. SBA Disaster Loans

Disaster relief requirements are difficult to assess in the best of circumstances. Examination of prior years would demonstrate, however, that the recommendation of the Administration to withdraw a pending 1981 supplemental for physical disaster assistance; to increase interest rates on physical disaster loans; and to terminate the SBA program for non-physical disaster loans is unwise. Such a decision would tend to place an undue burden on victims of disasters. The CBC recommandation, therefore, assumes an FY 1981 supplemental of $780 million for disaster loans for farmers affected by the 1980 drought, and rejects the proposed increase in interest rates for disaster loans.

9. Other

The CBC alternative budget assumes $45 million for Section 701 planning and neighborhood self-help grants.

FUNCTION 500: Education, Employment and Social Services

Congressional Black Caucus				Reagan			
$ in BILLIONS				$ in BILLIONS			
FY 1981		FY 1982		FY 1981		FY 1982	
BA	O	BA	O	BA	O	BA	O
32.6	32.0	36.6	34.7	29.4	30.6	24.6	25.8

Major CBC Additions To Reagan Budget:

	FY 1981		FY 1982	
	BA	O	BA	O
Education				
1. Elementary and Secondary Education	+1.4	+0.1	+1.5	+1.1
2. Bilingual, Indian and Vocational Education	+0.2	+0.1	+0.4	+0.3
3. Student Financial Assistance	+0.7	+0.5	+1.5	+1.3
4. Higher and Continuing Education	+0.1	*	+0.1	+0.1
5. National Foundation on the Arts and Humanities	-	-	+0.1	+0.1
6. All Other Education	+0.1	+*	+0.3	+0.2
Employment				
1. CETA Titles A,B,C, Title IV (Youth Programs) and Summer Youth Program	-	-	+1.8	+0.9
2. CETA Title III (National Programs)	+0.2	-	+0.4	+0.3
3. CETA Titles II-D and VI (Public Service Jobs)	+0.5	+0.7	+4.1	+3.1
4. Job Corps	-	-	*	*
5. Older Americans	-	-	*	*
6. All Other Employment	*	*	*	*

	FY 1981 BA	FY 1981 O	FY 1982 BA	FY 1982 O
Social Services				
1. Social Services for children, youth and families	*	*	+1.7	+1.4
2. Services for the elderly	-	-	+0.1	+0.1
3. All Other Social Services	*	*	*	*

Major CBC Reductions From Reagan Budget:

None

CBC BUDGET, TOTALS	$32.6	$32.0	$36.6	$34.7

*Less than $50 million

Explanation:

For FY 1981, the CBC recommends a total of $32.6 billion in budget authority for education, employment and social services programs. In comparison, the Reagan Administration would provide $3.2 billion less than the CBC recommendation for the current year. A total of $36.6 billion in budget authority for FY 1982 is recommended by the CBC as compared with $24.6 billion recommended by the Reagan Administration. The CBC believes that this 49% increase in budget authority over the Reagan proposals for education, employment and social service activities is absolutely vital toward meeting the needs of poor and working poor families.

Education

1. Elementary and Secondary Education

The CBC rejects the Reagan Administration proposals to rescind a portion of FY 1981 appropriations for elementary and secondary education programs. Moreover, the CBC opposes the Reagan proposal to consolidate these programs at a 25% reduced funding level of $4.4 billion into 2 block grants in FY 1982. Rather, the CBC supports maintaining the separate identity of each of these programs targeted for consolidation and provides a total of $5.9 billion for these activities in FY 1982. This amount would supplement current funding levels for these activities by an average of 9%. Suggested funding levels include $3.8 billion for ESEA Title compensatory education programs which currently serve less than 70% of all eligible children and very few eligible students in secondary schools. A total of $306 million is recommended for school desegregation assistance to meet the needs of over 2000 school districts that are involved in desegregation activities. About $1.2 billion would flow to local school districts for the costs of meeting the education needs of handicapped children. Roughly $44 million is recommended for migrant education.

2. Bilingual, Indian and Vocational Education

The CBC recommends that, in FY 1982, bilingual education and Indian education activities be funded at slightly higher levels than recommended by President Reagan--a total of $209 million for bilingual education and $384 million for Indian education. Additional budget authority is provided in order to maintain vocational education programs at just over $900 million in FY 1981 and FY 1982, pending reauthorization hearings.

3. Student Financial Assistance

The CBC believes that maintaining equal access to higher educational opportunities should be a high national priority. Therefore, the CBC rejects the proposed reforms of the Pell Grant Program (formerly Basic Educational Opportunity Grants) because needy eligible students and their families are already burdened by the high cost of attending college. The CBC proposes that a FY 1981 supplemental appropriation of $1.2 billion, or $600 million more than the Reagan recommendation, be provided to fund a $1,750 maximum award per student. For FY 1982, the CBC budget alternative provides $500 million more than the Reagan proposal to fund Pell grants at a $1,800 maximum award per student. Proposed legislative reforms in the Guaranteed Student Loan (GSL) program, are rejected by the CBC, since rising interest rates, and expanded eligibility, rather than abuses of the program, have been driving the tremendous growth in the program. Moreover, GSL's are essential in helping middle-class students (who often have no other source of financial aid) and graduate students finance their educational expenses. The CBC alternative budget assumes full funding of GSL's under existing law.

4. Higher and Continuing Education

Additional budget authority of $70 million for various higher and continuing education programs is recommended for FY 1982 over the Reagan budget in order to provide an average nominal increase of 9% over current appropriation levels for these programs. Suggested funding levels include $172 million for the TRIO program, $12 million for veterans cost of instruction; $153 for the Title III program and $2 million for the Council on Legal Education (CLEO). Proposed FY 1981 rescissions for higher and continuing education programs are rejected; funds are recommended to continue these programs at their appropriated levels in FY 1981.

5. National Foundation on the Arts and Humanities

The CBC recommends level funding of $320 million in budget authority for the National Foundation for the Arts and Humanities in FY 1982. The CBC believes that the Administration proposal for a reduction of $136 million in budget authority would inhibit the initiatives made by the Endowments to enhance minority participation.

Employment

1. CETA Titles A,B,C, Title IV (Youth Programs) and Summer Youth Program

For FY 1982, $5.2 billion in budget authority for CETA Titles A,B,C and Title IV (Youth Programs) is provided to maintain current levels of service. This amount is more than twice the amount recommended by the Reagan Administration. Additional funds for summer jobs for youth are recommended to finance a total of 1 million jobs in FY 1982 at a total cost of $900 million. The Administration proposal to consolidate these programs at a reduced funding level in FY 1982 is rejected. Finally, the CBC believes that all FY 1981 appropriated funds for summer jobs for disadvantaged youth should be used for that purpose in FY 1981 given 38% unemployment among black teenagers. Thus, the proposed FY 1981 deferral of $39 million for summer youth jobs is rejected.

2. CETA Title III (National Programs)

Total budget authority of $309 million in FY 1981 and $602 million in FY 1982 is assumed for CETA Title III (National Programs).

3. CETA Titles II-D and VI (Public Service Jobs)

$2.9 billion in budget authority is provided for CETA Titles II-D and VI in FY 1982 in order to maintain 300,000 jobs, which are highly targeted to disadvantaged persons and minorities. The proposed termination of these jobs at the end of FY 1981 is rejected in light of the 14% unemployment rate among black adult Americans. In addition, the CBC believes that the proposed deferral of Title II-D and the proposed rescission of Title VI VY 1981 funds should be disapproved, and the current CETA hiring freeze suspended.

4. Job Corps

The CBC recommends that $15 million in additional FY 1982 budget authority be provided to refurbish dialapidated Job Corps Centers. A total of $749 million would be available for this activity.

5. Older Americans

The CBC assumes $300 million in FY 1982 budget authority for the Older Americans program which successfully provides employment for impoverished senior citizens. This amount is $25 million more than is provided in the Reagan budget.

6. All Other Employment

Under the CBC employment and training funding recommendation, over 700,000 additional CETA slots would be funded as compared with the Reagan proposals.

Social Services

1. Social Services for Children, Youth and Families

The CBC believes that it is inappropriate to consolidate social services programs which address somewhat different purposes and constituencies, and are administered by diverse service groups. Thus, the CBC recommends that the separate identity of these social service programs and the Community Services Administration be retained in FY 1982. Suggested FY 1982 funding levels include $3.0 billion for Title XX social services; $220 million for child welfare services; $1.1 billion for rehabilitation services, $335 for foster care; $61 million for developmental disabilities. The CBC assumes $600 million for the Community Services Administration.

2. Services for the Elderly

For FY 1982, an additional $85 million for a total of $734 million in budget authority for aging centers, nutrition and social services, etc. is recommended to assist senior citizens on fixed incomes. The proposed FY 1981 rescission for aging social services is rejected.

3. All Other Social Services

The proposed rescission of $9 million in FY 1981 funds for ACTION is rejected. An additional $40 million for ACTION in FY 1982 is provided to continue the work of the corps of domestic volunteers. A total of $186 million in budget authority would be available.

CBC - Reagan Areas Of Agreement:

1. Education

   - The CBC accepts proposed FY 1982 funding recommendations for Impact Aid, saving $389 million in FY 1982.
   - CBC supports a funding level of $286 million for National Direct Student Loan in FY 1982, as proposed by the Administration.

2. Employment

   - The CBC agrees that the Young Adult Conservation Corps, a program which is not targetted to the disadvantaged, could be phased out during FY 1982.
   - The CBC accepts the Administration proposal to replace biannual cost-of-living adjustments with a single annual adjustment for civil service and other federal retirees.

3. Social Services

   - The CBC agrees with the Reagan Administration that the Head Start Program should be funded at a level of $950 million in FY 1982.

FUNCTION 550: Health

Congressional Black Caucus				Reagan			
$ in BILLIONS				$ in BILLIONS			
FY 1981		FY 1982		FY 1981		FY 1982	
BA	O	BA	O	BA	O	BA	O
72.2	69.0	86.8	77.2	71.3	66.7	83.5	73.4

Major CBC Additions To Reagan Budget:

	FY 1981		FY 1982	
	BA	O	BA	O
1. Medicare	-	+0.5	-	+1.8
2. Medicaid	+0.6	+0.6	+1.4	+1.1
3. Health Care Services	+*	+*	+1.1	+1.5
4. Research, Education and Training	0.5	+0.2	-0.7	0.3
5. All Other	*	*	+0.2	+0.1

Major CBC Reductions From Reagan Budget:

None

CBC BUDGET, TOTALS	$72.2	$69.0	$86.8	$77.2

*Less than $50 million

Explanation:

The CBC proposes that a total of $72.2 billion in budget authority for health services and related activities be provided in FY 1981, a $900 million increase above the Reagan recommendation. Total resources of $86.8 billion in budget authority, or $3.2 billion more than assumed by the Reagan budget, is recommended for FY 1982. As a result, a 20% increase in total federal resources for health activities would be available in FY 1982 over current levels. Most of the increase would be attributed to additional spending in the medicare and medicaid programs, which addresses the health needs of low income and elderly citizens.

1. **Medicare**

The CBC assumes that spending under Medicare will be $41.7 billion in FY 1981 and $48.9 billion in FY 1982. These amounts assume that the minor benefit improvements recently enacted in the Omnibus Reconciliation Act of 1980 will not be repealed, as proposed by the Reagan Administration. However, the CBC agrees that the several administrative reforms proposed by the Reagan Administration could be adopted resulting in management savings.

2. **Medicaid**

The CBC believes that the adoption of the Administration proposal to cap funding for the medicaid program would result in a dramatic decrease in persons receiving these services moreover, further reductions in the type and amount of health care made available for low income and working poor recipients should not be made at a time when these people suffer disproportionately from heart disease, hypertension, diabetes, strokes, etc.

Accordingly, the CBC assumes the full funding of the medicaid program under current law. Medicaid expenditures would total $18.3 billion in FY 1982. In addition, the CBC will work toward the enactment of the CHAP legislation to enhance health care services for low income children and pregnant women, and assumes funding in FY 1982 for this purpose.

3. **Health Care Services**

The CBC rejects the proposed consolidation of over 20 health service programs into 2 block grants at an overall reduced funding level. Rather, the CBC supports the maintenance of the separate identities of these programs at a total funding level of $2.1 billion in FY 1982, or $681 million above the combined amount recommended by President Reagan. Suggested funding levels include $379 million for community health centers; $46 million for migrant health; $417 million for maternal and child health; $343 million for alcohol and drug abuse services; $30 million of high blood pressure projects; $166 million for family planning services; and $20 million for adolescent health projects.

Additionally, a 9% enhancement in funding levels for those health service programs not covered in the Reagan block grant proposals is assumed for FY 1982 as compared with amounts currently available. Finally, the proposed FY 1981 rescissions for various health service programs are disapproved, with the exception of the proposed rescission affecting Public Health Service Hospitals.

4. Research, Education and Training

The CBC assumes $4.1 billion in FY 1982 budget authority would be available for the National Institutes of Health (NIH), $293 million more than recommended by President Reagan. This amount is 9% more than is currently available and should contribute toward sustaining our nation's biomedical research base. The proposed FY 1981 rescissions affecting NIH, are rejected.

Health education and training programs (excluding those administered by NIH) would be provided total budget authority of $442 million in FY 1982, or 91% more than the $232 million recommended by the Reagan Administration. Suggested funding levels include $107 million for mental health, alcohol and drug abuse training; $63 million for National Health Services Corps Scholarships; $32 million for health professions students loans and scholarships; $30 million for the recruitment and retention of minority health professions students; $65 million for primary care medical training; $58 million for nursing schools and students. Proposed FY 1981 health manpower program rescissions are rejected.

5. All Other Programs

The CBC recommends that the health planning program not be dismantled and assumes $147 million in FY 1982 for its continuance.

CBC - Reagan Areas Of Agreement

- The CBC agrees that funding for Public Health Service (PHS) Hospitals could be phased out, since these facilities--many of which are outmoded--are underutilized.
- The CBC agrees that capitation payments to health and nursing schools could be terminated in FY 1982.
- The CBC agrees that the cost-effectiveness of PSROS is doubtful and that federal funding for PSROS could be discontinued.

FUNCTION 600: Income Security

Congressional Black Caucus $ in BILLIONS				Reagan $ in BILLIONS			
FY 1981		FY 1982		FY 1981		FY 1982	
BA	O	BA	O	BA	O	BA	O
255.8	230.5	282.6	251.3	249.9	229.7	261.8	241.4

Major CBC Additions To Reagan Budget:

	FY 1981		FY 1982	
	BA	O	BA	O
1. Social Security	+ *	+0.1	+ *	+1.5
2. Aid to Families with Dependent Children	-	-	+0.6	+0.6
3. Supplemental Security Income	-	-	*	-0.2
4. Unemployment Compensation (Trade Adjustment Assistance)	+0.5	+0.6	+1.9 (+1.2)	+2.0 (+1.2)
5. Housing Assistance	+5.1	+ *	+12.4	+0.2
6. Food Stamps	+0.2	+0.1	+2.6	+2.6
7. Child Nutrition and Special Supplemental Food Program	+ *	-	+2.3	+2.2
8. Low Income Energy Assistance	-	-	+0.5	+0.5
9. Refugee Assistance	+0.1	+ *	+0.2	+0.2
10. Other	-	-	+0.3	+0.2

Major CBC Reductions From Reagan Budget:

None

CBC BUDGET, TOTALS	$255.8	$230.5	$282.6	$251.3

*Less than $50 million

Explanation:

The programs covered in this function--social security and other retirement programs, public assistance and unemployment compensation, housing and energy assistance, and nutritional aid form the core of federal efforts to assist the elderly, low-income families and children, and the unemployed to maintain a decent standard of living. Because of the importance of these activities, the CBC budget alternative would provide total resources of $255.8 billion in FY 1981 and $282.6 billion in FY 1982 for the income security programs. The CBC recommendations are $5.9 billion and $20.8 billion more than the respective amounts recommended by the Reagan Administration. Under the CBC alternative budget, spending for income security purposes would rise 9% from FY 1981 to FY 1982.

CBC Additions to Budget

1. Social Security

With regar to the social security programs (SS), the CBC rejects the Administration's recommendation to terminate minimum SS benefits and to restrict disability benefits. The CBC does believe that student benefits paid from the SS system could be phased out by allowing no new recipients after September 31, 1981, as proposed by the Administration. Contrary to the Administration proposal, however, payments to current recipients, would be continued at full entitlement levels until these individuals reach the age of 22.

2. Aid to Families with Dependent Children

The CBC believes that improvements in the management of the Aid to Families with Dependent Children (AFDC) could be made, saving about $100 million in FY 1982. The Reagan Administration's proposed reforms for the AFDC program would have the effect of reducing benefits to already impoverished families and are rejected in the CBC budget alternative.

3. Supplemental Security Income

The CBC budget would fully fund the Supplemental Security Income program (SSI) in FY 1982. The CBC budget assumes that $307 million in SSI payments (provided in the Reagan budget to offset the elimination of minimum SS benefits) would not be spent because the CBC budget assumes the continuation of minimum SS benefits. The Reagan budget assumes that management savings of $168 million could be achieved in the SSI program. The CBC budget assumes that only half of these savings will result. The result of these CBC adjustments is a $200 million decrease below the amounts provided in the FY 1982 Reagan budget to fully fund the SSI program.

4. Unemployment Compensation

The various legislative changes to the federal unemployment programs proposed by President Reagan are opposed by the CBC. The proposed legislation would result in reduced unemployment benefits for nearly one million persons and is contrary to the Administration's stated goal of maintaining a "social safety net". The CBC alternative budget assumes full funding for the Trade Adjustment Assistance program.

5. Housing Assistance

The CBC strongly believes that the federal government must do more to provide decent and affordable housing for the poor. Accordingly, the CBC budget for FY 1982 provides $32 billion in budget authority for Section 8 subsidized housing and for public housing. This amount is $12.4 billion more than the amount recommended by the Reagan Administration. The CBC budget would fund about 280,000 housing units as compared with 175,000 housing units under the Reagan plan. In addition, the CBC rejects the proposed $5.0 billion rescission of FY 1981 assisted housing funds, given the great need to expand the nation's rental housing stock. Finally, the CBC opposes the Administration suggestion to increase assisted housing tenant rent contributions from 25% to 30% of annual income.

For public housing projects, a total of $1.1 billion and $1.3 billion is recommended for operating subsidies in FY 1981 and FY 1982, respectively. These CBC recommendations are $100 million and $60 million more than the respective amounts recommended by the Administration.

About 8% of the nation's one million units of public housing is in serious disrepair. It is essential that decent and safe housing opportunities be provided to public housing residents. Therefore, the CBC recommends that comprehensive public housing efforts be accelerated, rather than delayed as proposed by the Administration.

6. Food Stamps

The food stamp program is central to the federal government's efforts to alleviate poverty. The CBC believes that the proposed reductions in the food stamp budget cannot be justified in light of the fact that current food stamp benefits are inadequate to meet the program's goal of ensuring a nutritional diet for all Americans. Moreover, the CBC believes that with few exceptions current recipients in the food stamp program are not responsible, and therefore should not be penalized, for fraud and abuse that stems from program management deficiencies. In any case, comprehensive reforms to eliminate fraud and abuse in the program were adopted in the Food Stamp Act of 1980 and should result in considerable savings. Finally, the CBC believes that nearly all 22 million Americans currently receiving food stamps are indeed "truly needy" and that none should be dropped from the food stamp rolls. Accordingly, the CBC alternative budget provides full funding for the food stamp program totalling $11.1 billion for FY 1981 and $12.4 billion in FY 1982, a respective increase of $150 million and $2.6 billion above the Reagan budget.

7. Child Nutrition and Special Supplemental Food Program

The child nutrition and the supplemental food program (WIC) are highly successful in providing nutritious food to supplement the diets of low-income children and low-income pregnant women and their infants who are nutritionally at risk. Thus, the CBC rejects the Administration's attempt to reduce child nutrition benefits for over six million children from families with incomes above $12,000. The Administration fails to consider that with the loss of these children, many schools may be unwilling to continue their (subsidized) school lunch programs, leaving the poor children in those schools eligible but unable to receive a free lunch. With respect to the WIC program, the CBC believes that it is penny-wise and pound-foolish to reduce funding for a program that significantly decreases the mortality rate of new born infants and prevents the need for costly medical care for low-birth weight babies. The CBC FY 1982 budget assumes an additional $2.3 billion in budget authority to fully fund the child nutrition programs at $4.5 billion and the WIC program at $1.1 billion.

8. Low Income Energy Assistance

The CBC rejects the Administration's plan to consolidate the low-income energy assistance and energy weatherization program into one block grant program at 25% reduced funding level of $1.4 billion in FY 1982. In contrast, the CBC recommends an additional $450 million, or a total of $1.85 billion, for low income energy assistance.

FUNCTION 700: Veterans Benefits and Services

Congressional Black Caucus $ in BILLIONS				Reagan $ in BILLIONS			
FY 1981		FY 1982		FY 1981		FY 1982	
BA	O	BA	O	BA	O	BA	O
23.0	22.4	24.7	24.2	22.9	22.2	24.2	23.6

Major CBC Additions To Reagan Budget:

1. Readjustment Benefits	+*	+*	.1	.1
2. Medical Care	.1	.1	.3	.3
3. Construction	.1	.1	.1	.2
4. General Operations	+ *	+*	+*	+*

Major CBC Reductions From Reagan Budget:

1. NONE

CBC BUDGET, TOTALS	$23.0	$22.4	$24.7	$24.2

*Less than $50 million

Explanation:

The CBC FY 1981 budget authority recommendation for veterans services is $23.1 billion, an increase of $191 million, over the Reagan Administration proposals. In addition, CBC supplements the Reagan recommendations for FY 1982 by $560 million, or

2.3%, for a total recommended budget authority of $24.8 billion. The CBC FY 1982 funding recommendation provides $334 million in new resources for veterans programs over the amounts currently available. These additional resources are necessary to ensure adequate VA staffing in medical care and veterans benefits programs.

1. Readjustment Benefits

The CBC assumes that flight correspondence and training programs would be retained through the end of FY 1981, and terminated thereafter. In contrast, the Reagan Administration recommends the immediate termination of these benefits. For FY 1982, the CBC assumes passage of legislation to extend for two years certain training benefits to Vietnam veterans, continues class II outpatient dental treatment benefits and payments for travel for non-service connected veterans.

2. Medical Care

The CBC rejects the Reagan proposals to cut back staffing in VA medical facilities and assumes funding for staff increases of 1,200 medical personnel in FY 1981 and of 5,000 medical personnel in FY 1982.

3. Construction

FY 1981 budget authority for construction projects is increased by $113 million, and for FY 1982 by $96 million, to allow continuance of projects deferred under the Reagan economic recovery program. The need for these projects has been clearly established and deferral will result in higher costs to the government.

CBC - Reagan Areas of Agreement:

- The CBC agrees that funds previously authorized for construction of VA hospitals in Baltimore, MD and Camden, NJ could be withdrawn, resulting in savings totalling $162 million. These areas already have sufficient hospital beds to serve the veteran population.

- The CBC is in agreement with capping physician pay by restricting special pay to no more than 12% of the total appropriation. This proposal could result in savings of $10 million in FY 1981 and $40 million in FY 1982. This proposal will limit physician pay to amounts intended in P.L. 96-330.

FUNCTION 750: Administration of Justice

Congressional Black Caucus $ in BILLIONS				Reagan $ in BILLIONS			
FY 1981		FY 1982		FY 1981		FY 1982	
BA	O	BA	O	BA	O	BA	O
4.5	4.8	4.8	5.0	4.4	4.7	4.2	[illegible]

Major CBC Additions to Reagan Budget

	FY 1981		FY 1982	
	BA	O	BA	O
1. Legal Services Corporation	--	--	0.3	0.3
2. Office of Juvenile Justice and Delinquency Prevention	--	--	+0.1	+0.1
3. Equal Employment Opportunity Commission	*	*	*	*
4. Other Dept. of Justice Activities	*	*	+0.1	+0.1

Major CBC Reductions from Reagan Budget

None

CBC BUDGET, TOTALS	$4.5	$4.8	$4.8	$5.0

*Less than $50 million

Explanation:

For FY 1981, the CBC recommends a total of $4.5 billion in budget authority and $4.8 billion in outlays. A total of $4.8 billion in budget authority and $5.0 billion in outlays or a 14% and 14% increase, respectively over the Administration's FY 1982 request.

1. Legal Services Corporation

The CBC rejects the Administration's proposal to eliminate the Legal Services Corporation. In order to insure independent legal representation for legal services clients, who are low-income, federal funds should continue to support legal assistance through the Corporation.

2. Office of Juvenile Justice and Delinquency Prevention

   The CBC rejects the Administration's proposal to effectively eliminate services provided by the Office of Juvenile Justice and Delinquency Prevention. Juvenile crime and delinquency problems are major criminal justice issues. Therefore, the CBC supports maintaining OJJDP as a separate office within the Department of Justice.

3. Equal Employment Opportunity Commission

   The CBC continues to fully support the efforts of the Equal Employment Opportunity Commission, and therefore increases budget authority and outlay by $4 million in FY 1981 and $20 million in FY 1982.

4. Department of Justice

   The CBC budget alternative assumes $55.0 million in additional support for General Administration; General Legal Activities; U.S. Attorneys and Marshals; the Community Relations Service; the Drug Enforcement Administration; and the Immigration and Naturalization Service.

FUNCTION 800: General Government

Congressional Black Caucus $ in BILLIONS				Reagan $ in BILLIONS			
FY 1981		FY 1982		FY 1981		FY 1982	
BA	O	BA	O	BA	O	BA	O
5.4	5.1	5.2	5.1	5.4	5.1	5.1	5.0

Major CBC Additions to Reagan Budget:

	FY 1981		FY 1982	
	BA	O	BA	O
1. Building management	+*	+*	+0.1	+0.1

Major CBC Reductions from Reagan Budget:

None

CBC BUDGET, TOTALS	$5.4	$5.1	$5.2	$5.1

*Less than $50 million

Explanation:

In the central management of the Federal government in FY 1982, the CBC recommends $5.2 billion in budget authority and $5.1 Billion in budget outlays. These amounts are slightly higher than those recommended by the Reagan Administration.

1. Building Management

   The CBC budget assumes additional funding of $100 million which would be necessary for the management of Federal buildings. As the CBC supports a larger Federal involvement in the provision of services, it is assumed that the demand on the facilities of the Federal government will be increased. This assumption is not reflected in the Reagan Administration proposal.

FUNCTION 850: General Purpose Fiscal Assistance

Congressional Black Caucus				Reagan			
$ in BILLIONS				$ in BILLIONS			
FY 1981		FY 1982		FY 1981		FY 1982	
BA	O	BA	O	BA	O	BA	O
6.2	6.8	6.5	6.5	6.2	6.8	6.5	6.4

Major CBC Additions To Reagan Budget:

	FY 1981		FY 1982	
	BA	O	BA	O
1. Loans to the District of Columbia	--	--	*	+0.1

Major CBC Reductions from Reagan Budget:

None

CBC BUDGET, TOTALS	$6.2	$6.8	$6.5	$6.5

Explanation:

1. Loans to the District of Columbia

The CBC recommends an increase of $75 million in loans to the District of Columbia for its capital improvements program. As the District has not entered the municipal bond market as yet, this increase allows program continuation at current levels.

FUNCTION 900: Interest on the Public Debt

Congressional Black Caucus				Reagan			
$ in BILLIONS				$ in BILLIONS			
FY 1981		FY 1982		FY 1981		FY 1982	
BA	O	BA	O	BA	O	BA	O
77.2	77.2	82.5	82.5	77.2	77.2	82.5	82.5

Major CBC Additions to Reagan Budget:

None

Major CBC Reductions from Reagan Budget:

None

CBC BUDGET, TOTALS				77.2	77.2	82.5	82.5

Explanation:

The CBC agrees with the Administration's assumption that interest rates will continue to decline and that the economy will improve in FY 1981.

FUNCTION 920: Allowances

Congressional Black Caucus $ in BILLIONS				Reagan $ in BILLIONS			
FY 1981		FY 1982		FY 1981		FY 1982	
BA	O	BA	O	BA	O	BA	O
--	--	2.5	1.9	--	--	2.3	1.8

Major CBC Additions to Reagan Budget:

	FY 1981		FY 1982	
	BA	O	BA	O
1. Civilian Pay Raise	--	--	+0.2	+0.1
2. Contingency Allowance	--	--	+0.5	--

Major CBC Reductions from Reagan Budget:

None

	BA	O	BA	O
CBC BUDGET, TOTALS	--	--	$2.5	$1.9

Explanation:

The CBC alternative budget assumes $2.5 billion in budget authority and $1.9 billion in outlays for allowances to cover increases in compensation for Federal civilian agency employees and unforeseen requirements that may arise. These amounts are $200 million more in budget authority and $100 million more in outlays than assumed by the Administration,

1. Civilian Pay Raise

   The CBC rejects the Reagan Administration proposal to change the method by which Federal civilian pay rates are set and assumes funding of a 5.5% pay raise in October, 1981.

2. Contingency Allowance

   The CBC assumes a contingency allowance of $2.0 billion -- a $500 million increase over the Reagan budget.

FUNCTION 950: UNDISTRIBUTED OFFSETTING RECEIPTS

Congressional Black Caucus				Reagan			
$ in BILLIONS				$ in BILLIONS			
FY 1981		FY 1982		FY 1981		FY 1982	
BA	O	BA	O	BA	O	BA	O
129.3	-29.3	-32.0	-32.0	-29.3	-29.3	-32.0	-32.0

Major CBC Additions to Reagan Budget:

None

Major CBC Reductions from Reagan Budget:

None

CBC BUDGET, TOTALS -$29.3 -$29.3 -$32.0 -$32.0

Explanation:

The CBC concurs in the Administration's proposed policy revisions in compliance with the provisions and requirements of the Outer Continental Shelf Act.

CONGRESSIONAL BLACK CAUCUS MEMBERS AND CABINET LEVEL OFFICIALS ACCORDING TO CBC MEMBERS COMMITTEE ASSIGNMENTS

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	Harold Ford	Marguerite Riley
	Julian Dixon	Bevan Dufty
	William Gray	Singleton McAllister
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	Mickey Leland	Shelvin Hall
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	Mickey Leland	Shelvin Hall
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• CBC Team Leader
NOTE: CBC Chair is an Ex Officio Member
of each Team

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14. Martin Anderson White House Domestic Affairs Advisor	Congressmembers: ●Augustus Hawkins Charles Rangel Harold Ford	 Jonathan Gardner Steve Brown Marguerite Riley
15. Paul Volker Chairman, Federal Reserve Board	Congressmembers: ●Walter Fauntroy Augustus Hawkins Louis Stokes Parren Mitchell Julian Dixon William Gray	 Clifton Smith Jonathan Gardner Millicent Gorham Clarence Bishop Bevan Dufty Singleton McAllister

● CBC Team Leader
NOTE: CBC Chair is an Ex Officio Member of each Team

THE CONGRESSIONAL BLACK CAUCUS
PLAN FOR THE 97TH CONGRESS

IT'S NOT THE MAN, IT'S THE PLAN;
IT'S NOT THE RAP, IT'S THE MAP.

"Give us a plan of action...a 10 black commandments; simple, strong, that we can carry in our hearts, and in our memories no matter where we are and reach out and touch and feel the reassurance that there is behind everything we do a simple, moral, intelligent plan that must be fulfilled in the course of time even if all of our leaders, one by one fall in battle, somebody will rise and say 'Brother!! our leader died while we were on page three of the plan. Now that the funeral is over, let us proceed to the page four."

Ossie Davis, Keynote Address
1st Annual CBC Dinner
June 18, 1971

SUMMARY

In his Economic Recovery Message on February 18, President Reagan challenged anyone who does not accept his program to propose a program that "offers a greater chance of balancing, reducing and eliminating inflation, stimulating the creation of jobs, and reducing the tax burden."

The "Constructive Alternative Budget" proposal of the Congressional Black Caucus meets that standard in every particular.

* LOWER DEFICIT.-- In F.Y. 1982, it calls for a deficit that is $1.5 billion smaller than the Reagan Budget proposal.

* TAX RELIEF - It provides for a total of $39.0 billion in tax relief; $22.7 billion in tax relief to the sixty percent (60%) of tax payers of low and moderate income who take the standard deduction, giving to them both an incentive to work and to save; and an additional $16.3 billion in depreciation reforms to increase business investment and productivity as well as a tax credit for social security taxes paid by employees.

The CBC Constructive Alternative Budget is based on our belief that the Reagan Budget places a disporportionate share of the burden of fighting inflation through budget cuts on the poor and those already hardest hit by our nations economic problems: Those served by the social safety net programs as well as small businesses which employ 90% of the workers in America.

* TAX REFORM - We remedy that situation with a tax program which will not hurt the rich, while strengthening the social safety net and expanding opportunities for small businesses to employ far more people than do the major corporations.

* RESTORE CUTS - To offset the restoration of the $27.4 billion in cuts which the President proposes, the Congressional Black Caucus raises an additional $27.1 billion in revenues by closing certain tax benefits for the more affluent citizens of our nation.

EXAMPLES:

RESTORE	COLLECT
Child Nutrition Program............. $1.5 billion	"Three Martini Lunch" 50% deduction--$1.5 billion
Food Stamps for 22 million........... people--$1.8 billion	Deferral of Income of Domestic International Sales Corporations--$1.8 billion
Medicaid Payments for 22............. million--$1.1 billion	End Capital gains treatment of ordinary income--$1.1 billion
Student Loans for 1 million.......... students--$800 million	Tax Straddles $1.3 billion
Economic Development Administration--$365,000,000	Foreign Tax Credit on oil and gas $700 million
Alternative Energy Research.......... and Development--$1.5 billion	Oil Depletion Allowance $2.9 billion

STATEMENT OF

HENRY S. REUSS, CHAIRMAN
JOINT ECONOMIC COMMITTEE

Before

HOUSE BUDGET COMMITTEE

MONDAY, MARCH 9, 1981, 2:00 P.M.

I am appearing before the House Budget Committee today to deliver the 1981 Report of the Joint Economic Committee, as required by the Congressional Budget Act.

Under that Act, the Joint Economic Committee submits to you our views with respect to the appropriate level of total budget outlays; the recommended level of Federal revenues; the appropriate levels of the surplus or deficit in the budget and of the Federal debt; the short- and medium-term goals of the Economic Report of the President; and the fiscal policy appropriate to the goals of the Employment Act of 1946.

A detailed response to these requirements is found in the 1981 Annual Report of the Joint Economic Committee, a copy of which is herewith submitted for your record.

The Joint Economic Committee Democrats recommend five basic principles for the year ahead.

1. Taxes. We need an immediate tax cut, modest in amount and anti-inflationary in character.

There is a strong case for immediate tax action. The economy is stagnant and may get worse. Inflation, in the past several years, has increased the real tax burden on many households. Lower and middle-income households have paid sharp tax increases to finance social security, and they are paying higher taxes on gasoline and heating oil as a result of oil price decontrol. Also, our best evidence is that the general level of demand is not contributing to inflation at the present time; current inflation is principally the product of wage and cost pressures combined with external shocks such as oil price increase. Therefore, a modest tax program this year would not contribute appreciably to inflationary pressures.

The JEC Democrats, therefore, recommend an immediate two-part package which would consist of a personal tax offset of the January 1, 1981, social security tax increases (Recommendation No. 10), and liberalized depreciation reform for new business investment (Recommendation No. 9). Such a package would contribute approximately $20 - $25 billion in tax reductions. Should the Committee feel further stimulus is desired, then the elimination of the marriage tax penalty might be worthwhile as well. This package would be a moderate one, it would help avert a further recession this year, and it would lower taxes for those families which have been hit hardest by the recent inflation- and policy-induced tax increases.

This immediate-action tax proposal should be separated from the Administration's radical and highly controversial 30 percent individual income tax cut proposal. It is likely that such a proposal will not be passed before many, many months, if ever. The Ways and Means and Finance Committees must give the Administration's program full consideration, and this is likely to be a lengthy process. But doing nothing because Congress cannot make up its mind on the 30 percent cut will run into the danger of continuing stagflation three or more months from now. Eventual tax action is inevitable. So why not pass the sensible and noncontroversial core of a tax package right now?

2. Taxes. We must avoid long-term tax action that might prolong the deadly cycle of high interest rates and high inflation.

The Administration's proposed 30 percent personal income tax reduction implies a commitment to large fiscal stimulus in future years. But as the Committee knows, the Federal budget deficit is already too large, not fully under control, and getting worse.

Moderation in cutting taxes is needed to guard against a ballooning budget deficit. A three-year commitment to massive personal income tax reduction, is a potential prescription for budgetary disaster. As a recent CBO study entitled "A Review of the Accuracy of Treasury Revenue Forecasts, 1963-1978" (requested by the JEC) makes clear, we cannot accurately predict the feedback "revenue effects" of massive tax reduction. Therefore, such reductions risk a dramatic enlargement of the budget deficit above present levels. This would reignite inflation and could drive interest rates even higher than today's destructively high levels.

Congress should look before it leaps on the 30 percent income tax reduction. The JEC Democrats pointed out in Recommendation No. 11: "We should avoid commitments now to long-term proposals whose consequences are unpredictable."

3. Spending. We should go easy on cuts in programs that help improve our economic structure, and thus, in the long run, fight inflation and unemployment.

The JEC Democrats believe that programs which effectively promote industrial infrastructure and labor-force development are an essential part of a comprehensive strategy to raise our rate of investment. More investment, in turn, is the prerequisite for higher productivity, higher output growth, higher employment, and eventual attainment of the economic goals set forth in the Humphrey-Hawkins Balanced Growth and Full Employment Act. The Report of the JEC Democrats lays out a strategy which would lead to higher investment in the context of moderate monetary and fiscal restraint. In our Report, Recommendations 17 through 23, we urge the following:

- Tax reduction incentives should stress the enhancement of existing and new industrial capacity and the reduction of costs of production.
- Funding for basic research should be maintained and private research further encouraged.
- Investment in infrastructure -- roads, water systems, rails, ports, utilities, and other physical support systems -- should be maintained at adequate levels. Federal economic development programs which can help State and local governments provide necessary infrastructure should be examined to improve their effectiveness and reduce the risk of waste.
- Better use should be made of the Targeted Jobs Tax Credit. Specifically:
    1. The revision of eligibility criteria to cover the main categories of structurally unemployed workers should be examined;
    2. Eligibility criteria should be simpler and more readily verifiable by employers; and
    3. There should be effective publicity to increase awareness on the part of the employers.
- The Congress should consider ways to facilitate job creation by small businesses and to increase the proportion of Federal procurement and research and development funding that is available to small businesses, and particularly to minority-owned businesses.

Income support programs should be designed to help improve the employability of individuals by emphasizing training, education, and skill development and should utilize small businesses, and particularly minority-owned businesses, whenever possible.

- The Committee supports private efforts to improve productivity through cooperative activities by labor and management.
- Smaller, innovation-minded firms and agricultural commodities should receive enhanced incentives and assistance for exports.

The steps which we recommend lead to an eventual reduction of the need for high levels of welfare payments to the poor because it would lead to the incorporation of people who are currently poor into the economic mainstream of the Nation. The Administration's approach, which cuts out economic development programs, goes off in the opposite direction. Furthermore, some of the cuts in income maintenance programs are false economies which will discourage families from accepting work. For example, reductions in Medicaid eligibility may force some families currently working in low-paid and low-benefit jobs out of work and onto the welfare rolls in order to qualify. The same effect may result from cutbacks in Food Stamp eligibility. And reduction in the work-related expenses deductible from earnings for calculating AFDC eligibility may force people out of work altogether. We recommend that this Committee take a close look at the Administration's spending and tax package and that it correct these and other defects.

4. Spending. We should be tough on spending activities that are inflationary and energy-wasting.

We applaud and ask your support for those Administration-proposed cuts which end subsidies for inflationary and energy-wasting activities in, for example, water, sewerage, and electrical development in remote areas. And the Administration's commitment to wage war on waste is always a good thing.

But lots of cuts that were not proposed by the Administration could have been. The Committee should look at all spending and tax activities which don't meet this sensible test: Does it improve our economic structure? Examples of activities that should be cut are the tax deductibility of interest on mortgages for vacation houses; the tax deductibility of interest on consumer debt; and the program of subsidies for recreational aviation, which should be terminated.

5. International. Insofar as budget decisions affect our world posture, we should apply a rigorous test of the costs and benefits of different expenditure programs.

For example, the Reagan Administration's 1982 budget request raises budget authority for military expenditures from $195.7 billion to $221.5 billion, while undercutting our position in the international lending agencies such as IDA. A close analysis of both marginal military hardware and of those aid and development programs might show that we get a much higher return on the latter than on the former.

Our Recommendations No. 30-32 reaffirm the United States' historic commitment to development and growth around the world. Such growth is in our interest because third world countries now purchase 40 percent of our manufactured exports. We should support an enhanced role for the International Monetary Fund and the World Bank to deal with oil-induced economic adjustment. We should continue to support the regional development banks and we should continue in our own self-interest our program of foreign aid. We should act favorably on the sixth replenishment for the International Development Associations. Our past effort to promote world growth through multilateral financial assistance has been effective.

The Morgan Guaranty Survey

published monthly by
Morgan Guaranty
Trust Company
of New York

MARCH 1981

Economic Outlook. *Some slowing of the economy seems likely, but not a return to recessionary conditions. A new surge in activity must await action on the proposed tax cut. One concern: a potential conflict between fiscal policy and monetary policy.* 1

Interest Rates. *Simple calculations about "real" interest rates make little sense. In an inflationary environment, interest rates can be too high and too low—both at the same time. It poses a dilemma for the Federal Reserve. Why this happens, and what needs to be done.* 5

Economy Watch

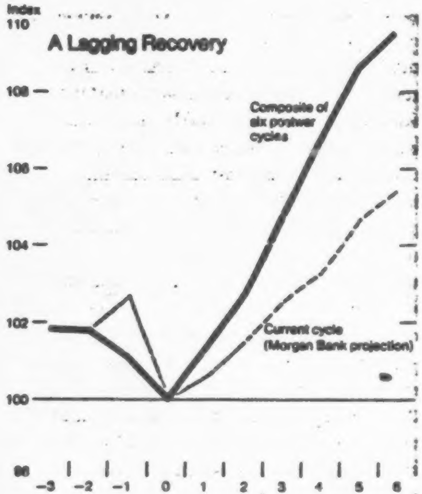
INCOMING data suggest that economic activity is slowing somewhat. The U. S. economy continues to grow, but growth is not quite as rapid as at the turn of the year, as evidenced by a variety of weekly and monthly figures relating to both real activity and supportive credit flows. Even the stubbornly high pace of price increase seems to have eased a bit, with an important assist from food prices in particular. Though rapid deterioration is not in sight, recovery from the 1980 recession seems likely to continue along a subpar path (chart on page 2).

Paradoxically, economists are raising their estimates of economic activity for the first quarter as a whole. Whereas only a month or two ago forecasters tended to anticipate either little growth or decline in "real" GNP, estimates of the quarter's performance are now virtually all decidedly positive. The Morgan Bank's current calculations place the first quarter's GNP advance above 3½% (table on page 2). Upward revision mainly reflects growing evidence that the rate of expansion of final sales (GNP less inventory investment) at yearend was stronger than earlier reports had indicated and that the momentum carried over generally into the first quarter. Moreover, inventories were leaner at yearend than earlier reports had indicated. Particularly noteworthy on the sales side was the further improvement in retail trade in February on top of a sharp rise in January. Although aggressive rebating by auto manufacturers was a factor, retail sales of goods other than autos showed considerable strength.

Auto rebating suggests, of course, that some sales have been borrowed from the future. Besides that potentially negative influence, prospects for spring business activity are dampened somewhat both by a weakening recently in U.S.

export performance, which is partly related to the continued lackluster condition of foreign industrial economies, and by growing evidence of softening conditions in housing markets.

But there are important offsets. Key among them is a strengthening of capital-goods activity. Growth in production of business equipment has been robust of late—at a 13% annual rate in the three months ended January. And there has been an accompanying step-up in construction. Total private construction outlays in real terms surged late last year and early this year. And that strength was reinforced by sprightly growth in the volume of public-sector construction outlays during the winter period. Defense spending, moreover, is developing as an increasingly important sustaining influence on the economy. The sharp rise in output of defense and space equipment, under way for several years as shown in the chart on page 3, is certain to be further buttressed by the acceleration in defense spend-



NOTE: Indices of "real" GNP equal 100 at recession troughs. Trough of current cycle is second quarter 1980.

Economic Projections

(Percent change at annual rate from previous quarter, except where noted.)

	1980	1981			....
	Q4	*Q1*	*Q2*	[illegible]	*Q4*
Real GNP	4.0	3.7	3.0	5.1	3.3
Real consumer spending	6.7	3.8	3.6	7.0	2.3
Real business-capital outlays	1.6	3.4	−1.4	3.9	3.9
GNP deflator	10.7	9.3	10.2	9.0	9.6
Consumer prices	12.2	11.5	11.1	8.4	8.4
Real disposable personal income	2.9	0.3	1.0	11.8	1.5
After-tax "economic" profits	7	−40	−9	90	74
Housing starts (Millions)	1.53	1.46	1.44	1.35	1.33
Auto sales (Millions)	9.1	10.0	9.8	10.2	10.0
Unemployment rate (%)	7.5	7.3	7.3	7.2	7.1

NOTE: 1980 Q4 data are actual, except for profits which are estimated. "Economic" profits are net of inventory profits and treat depreciation charges on a replacement-cost basis. Economic profits in the first half of 1981 are depressed by the Social Security tax increase that was implemented on January 1, and by sharp increases in interest costs. Economic profits recover in the second half as the economy continues to expand and as the lower projected inflation rate reduces the tax liability on inventory profits.

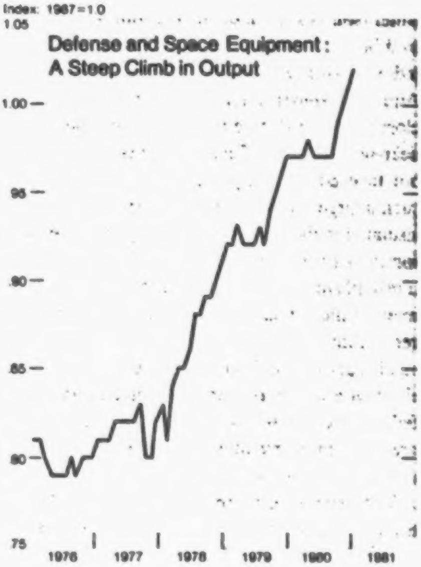
Approximately 1.0 percentage point of the rise in the GNP deflator in the fourth quarters of both years reflects the timing of federal pay increases.

ing which President Reagan has recommended.

The constraining influence of high credit costs suggests that advance in over-all economic activity at the rate experienced at the turn of the year is not likely to reemerge until the President's proposed tax cut begins to be reflected in pay envelopes. The working assumption embodied in this bank's economic projections is that the personal-tax reduction will become effective on the time schedule and in the amount the President has requested. That assumption looks less safe now than it did only a short time ago because of resistance now evident in Congress, especially on the House side. Whether the President will succeed in overcoming such resistance is hard to judge. If he does not, the quarter-to-quarter pattern of economic growth within 1981 could differ considerably from that projected in the table on page 2—with growth much more subdued in the third quarter in particular. And, of course, the timing of the tax cut—July 1 as the President proposed, or later this year, or even as late as 1982—is also crucial for interest-rate patterns during the year.

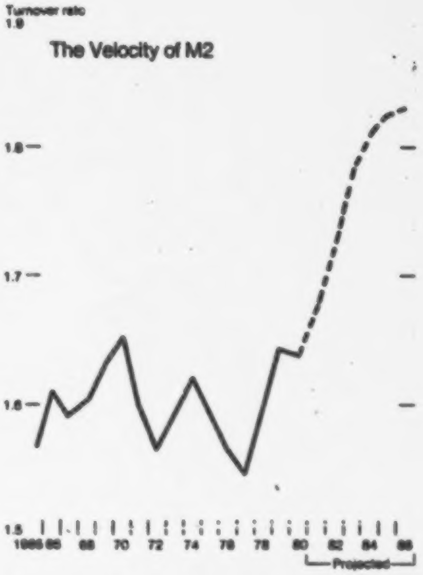
Long-run aims

In the final analysis, however, the cyclical impact of what the President proposes to do is of decidedly lesser importance than the long-run aims of the program. Its merits are compelling—articulating as it does the need for reducing the size of government and the taxation supporting it, and the need for returning to the U. S. economy some measure of the energizing discipline of competition it has lost over the years. This latter objective, of course, is not just a matter of reshaping budget and tax policies per se but also of tackling a number of other issues as well. Certainly, the Administration has shown great insight into the nature of the link between a healthier economy and government's role—witness, for example, the long-needed assault on regulatory overkill, on dairy-price supports, and on the ungoverned growth of off-budget spending and federal loan and loan-guarantee programs.


Defense and Space Equipment: A Steep Climb in Output

There is, however, reason for serious concern that the proposed amount of personal income-tax reduction is too large and comes too early in light of the effect such reduction will have in extending the period of large federal budgetary deficits. Moreover, even though the thrust of the President's spending proposals is boldly responsive to the nation's inflation problem, the specific spending cuts need careful Congressional study. It is far from clear, for example, that the "safety net" issue has been framed correctly. Many people covered under Social Security and veterans' programs with other sources of income are doing relatively well because of the way their benefits have been indexed—overly indexed in fact—to inflation. And it is important also that Congress focus closely on the degree to which many poor and near-poor will be affected by cuts in programs not favored by safety-net status. The fact that such a large portion of federal expenditures was insulated in the safety-net category ($240 billion for 1981 or 50% of total nondefense spending) inevitably meant, in combination with enlargement of the defense budget, that especially large retrenchment had to be made in a relatively small part of the budget.* That heightens the risk that a variety of worthwhile and appropriate federal programs—not just in the social-welfare area but in many other areas as well—will be pared more than is desirable.

The need for Congressional care in reviewing the tax and spending proposals is underscored by the fact that the President's fiscal package thus far has not been a conspicuous success in lowering inflation expectations. Significantly, yields on long-term securities are as high or higher now than they were in January—even though short-term rates have eased considerably. Inflationary expectations have not subsided partly because no one can be sure how the fiscal proposals will be reshaped in Congressional debate and partly because large budgetary deficits are on the horizon for several years to come—even if Congress implements all the spending cuts proposed by the Administration.



NOTE: The velocity of M2 is the ratio of GNP to the M2 aggregate. Estimates of velocity for the 1981-86 period are derived by using the Reagan Administration's projections of nominal GNP and projections of M2 which assume a 9% growth rate for M2 in each year of the 1981-86 period.

Additionally, market participants are concerned that the Administration's aggressive efforts to promote U.S. economic growth over a period of years—via "supply-side" policies—do not seem to live very well with the Federal Reserve's determination to restrain the growth of the monetary aggregates. The Administration's fiscal package recognizes explicitly the need for monetary restraint. And yet, when its underlying economic projections are examined, it is clear that they involve a rate of growth of nominal GNP that is hard to square with the Fed's targets for the aggregates.

This potential conflict is best seen by looking at what the Administration's forecast for the economy implies for velocity—a measure of how many times a dollar "turns over" in the course of a year. As can be seen in the accompanying chart, the velocity of M2 would move far outside its historical range. And this would be the

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*The broad issue of curbing "entitlements" is discussed in "Benefit Payments: The Key to Budgetary Control," *The Morgan Guaranty Survey*, January 1981.

case even if the Federal Reserve, which has called for gradual reduction in the growth of M2, were to allow that aggregate to grow for several years by as much as 9%–the upper limit of its target for 1981.*

Potential conflict

There is, of course, nothing sacred about the historical path of velocity. But it is generally true that large increases in velocity come about only in a climate of high and rising interest rates–something that on the surface seems inconsistent with the Administration's aim of promoting faster economic growth.

Potential conflict between monetary and fiscal policy may be the key flaw of the program, despite its many merits. That assessment must be a tentative one. It should be remembered that the economy has demonstrated an underlying resilience for some time. It would be premature to rule out the prospect of a stepped-up rate of economic growth–even in a high interest-rate environment. However, concern about potential conflict between fiscal and monetary policy should alert Congress to the danger of responding inadequately to the President's challenge to cut spending and, at the same time, of responding incautiously to his plan for multiyear tax cuts.

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*Any number of measures for velocity could be used for purposes of making this point. M2 is chosen because, for the immediate future, its growth will not be biased one way or the other by changes in deposit regulations such as nationwide introduction of NOW accounts. Such changes will tend to alter the relationship between GNP and narrower measures of money. M2 includes currency in circulation, demand deposits at commercial banks, other checkable deposits, savings and small-denomination (i.e., under $100,000) time deposits at all depositary institutions, overnight RPs issued by commercial banks, money market mutual fund shares, and overnight Eurodollar deposits of U.S. nonbank residents at Caribbean branches of U.S. banks.

Despite the current distortions of M1B (which consists of currency plus all checkable deposits at all depositary institutions), that aggregate can also be used to illustrate the same point. If M1B is allowed to grow this year at the 8½% upper limit of its 1981 target range–an abnormally high rate which reflects the one-time effect of the move to nationwide NOW accounts–but is constrained to a 6½% growth rate (the previous upper target bound) for the 1982-86 period, then an upward shift in the trend of M1B velocity would be implied by the Administration's projections of nominal GNP. While such shifts in velocity have occurred in the past, they have typically been accompanied by rising interest rates.

Erroneous Notions About "Real" Interest Rates

THE past few years have witnessed a rapidly growing realization that inflation and interest rates are closely interrelated–that as inflation and inflation expectations worsen interest rates climb.

What doesn't seem to be adequately appreciated, however, is that the relationship is exceedingly complex. Too many analysts, for example, have fallen into the habit of calculating "real" or inflation-adjusted interest rates and of using those derivations without the qualifiers that ought to attend them. The fact is that any given real rate of interest in a high-inflation period implies something far different for the economy–and for monetary policy–than does the same real interest rate in an environment of relatively low or no inflation. That critically important point can readily be understood by examining the capricious effect of high nominal interest rates on borrowing and lending decisions.

One way in which high inflation premiums affect borrowing decisions is that they create a cash-flow strain in the early years of an investment's life because each interest installment in effect embodies some repayment of principal as well as interest per se (box on page 7). The nominal value of the debt obligation, of course, does not decline, but its real value erodes with inflation. The lender is compensated for this erosion by the "inflation premium" embodied in interest rates.

In some instances, borrowers facing a cash-flow squeeze because of high nominal interest rates can offset weak early-year cash flows with additional borrowing—to be paid back when the revenues generated by the physical asset they're investing in pick up with inflation while interest payments on the original borrowing remain constant. This approach, however, is available only to investors who by virtue of their financial strength have access to additional funds. For investors who do not, the cash-flow squeeze caused by high nominal interest rates is a real impediment to investment.* That impediment has undoubtedly worked to retard economy-wide capital formation in recent years.

High nominal interest rates, moreover, interact with the tax system so as to affect borrowers in different ways.

As the accompanying table shows, every level of nominal interest rates has associated with it after-tax borrowing costs that vary with borrowers' tax rates. The variation in those costs in a world of no inflation is small across tax brackets —as can be seen from the first line of the table. But the variation is extremely large in a world of high inflation premiums: the higher the nominal interest rate, the wider the distribution of after-tax real costs to borrowers in different tax brackets. For example, in a 10%-inflation world—one not far from the current reality for the U.S.—even 23% rates of interest are no higher on an after-tax real basis for borrowers in a 50% marginal tax bracket than are 3% interest rates in a no-inflation world. Such high-bracket borrowers could still be constrained, of course, if they were not able to take on added debt.

Real After-Tax Interest Rates

	Tax rate			
Nominal interest rate	*0%*	*30%*	*50%*	*70%*
3% (no inflation)	3%	2.1%	1.5%	0.9%
13% (10% inflation)	3%	−0.9%	−3.5%	−6.1%
23% (10% inflation)	13%	6.1%	1.5%	−3.1%

What happens to low-bracket borrowers, however, is entirely different. Their financing costs skyrocket if interest rates rise enough to generate positive after-tax real borrowing costs for high-bracket borrowers.

There are, of course, large numbers of taxpayers in 50%, or higher, tax brackets—including corporations and high-income individuals. But low-bracket or tax-free borrowers also account for a significant portion of total borrowing. In this category are not only low- and moderate-income individuals but corporations with little or no tax liability (e.g., Chrysler Corporation) and governments. The latter include not only state and local governments in this country but many developing countries that borrow heavily in the U. S. to offset their international trade deficits. Thus, as long as the current tax system is in effect, high nominal interest rates will imply a very wide divergence in after-tax real borrowing costs for different categories of borrowers.

The Federal Reserve faces a major dilemma

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*Home buyers, the nation's largest users of long-term funds, face a similar problem. Many of them conceivably could solve the early-year cash-flow strain created by high nominal interest rates by taking on added debt. As a practical matter, however, home-mortgage lenders are seldom willing to lend against borrowing capacities two or three years hence—a time when the home buyer's income most likely will be higher and his house worth more. For a potential home buyer, the choice often is to stay in rented quarters or to buy the house and severely curtail spending on other goods and services.

CASH FLOWS IN AN INFLATIONARY ENVIRONMENT

In order to see how high inflation premiums affect cash flows, it is useful to compare in very simplified terms the cash flows generated by an investment at a time of no inflation and 3% interest rates with the cash flows of that same investment at a time of 10% inflation and 13% interest rates.

Assume that a plant, built at a cost of $1,000, is capable of producing 1,000 units of output per year for 20 years. It is financed at prevailing interest rates (3% when inflation is zero, 13% when inflation is 10%). At the time the plant is built, its operating expenses (such as wages, raw materials, supplies) are $900 and its output sells for $1.00 per unit.

In the no-inflation case, the price of output and operating expenses both remain constant. Cash flow, after interest expense, remains constant at $70 per year.

In the 10% inflation case, however, the price of output and the operating costs of the plant are assumed to rise at 10% per year. Cash flow, as the accompanying table shows, is actually negative in the early years of the investment, but quite high in the later years. This is true despite the fact that the real interest rate and the real return on the investment are the same in both cases.

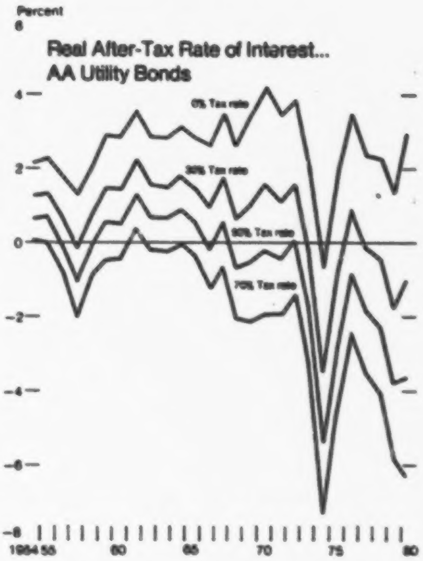
	Year										
	1	*2*	*3*	*4*	*5*	*7*	*8*	*9*	*10*	*15*	*20*
No inflation (3% interest rate)											
Price of output	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Revenue	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
Operating expense	900	900	900	900	900	900	900	900	900	900	900
Interest	30	30	30	30	30	30	30	30	30	30	30
Cash flow	70	70	70	70	70	70	70	70	70	70	70
10% inflation (13% interest rate)											
Price of output	1.00	1.10	1.21	1.33	1.46	1.61	1.77	1.95	2.14	4.18	6.73
Revenue	1000	1100	1210	1331	1464	1611	1772	1949	2144	4177	6727
Operating expense	900	990	1089	1198	1318	1450	1595	1754	1930	3760	6055
Interest	130	130	130	130	130	130	130	130	130	130	130
Cash flow	−30	−20	−9	3	16	31	47	65	84	287	542

in these circumstances because low-tax-bracket borrowers must experience extreme pressures if heavily-taxed borrowers are to face after-tax borrowing costs high enough to dissuade them from undertaking investments whose merits hinge on their tax treatment. The Fed, that is, cannot avoid engineering after-tax real interest rates that, paradoxically, are too high and too low at the same time: too high to permit borrowers with low taxes (or without access to additional borrowings) to undertake worthwhile investments; too low to discourage borrowers with high taxes from undertaking marginal projects. A case in point is the paradox that many families are unable to buy a home, while many others continue to speculate in real estate.

How high real interest rates must be to dislodge the inflation psychology that took root in the 1970s is not clear. But it is clear that real interest rates—not just nominal interest rates—for some time ahead must be significantly higher than they were in the past.

This conclusion is supported by a look at the pattern of real interest rates in the U. S. over the past 30 years or so. Those rates, on both short- and long-term financial assets, have tended to remain relatively constant. But whereas real rates were high enough to prevent aggressive credit use in the 1950s and early 1960s, the same real rates have not been effective deterrents more recently. The lesson is that the prevailing levels of real interest rates in the late 1960s and the 1970s meant something far different for the economy than did those same levels earlier on. Too low, they failed to do the job of convincing people that the inflation that began in the mid 1960s would be temporary. Too low, they failed to convince people that debt could not be used advantageously as an inflation hedge. As a matter of fact, people were right and it is not surprising that credit use accelerated. After all, interest rates in after-tax real terms fell sharply for the majority of borrowers. Taxpayers even in brackets as low as 30% faced credit costs that in after-tax real terms were actually negative (chart on this page).

One reason interest rates were too low in the late 1960s and the 1970s was the ceilings on interest payable on deposits at thrift institutions and commercial banks imposed by the Federal Reserve's Regulation Q. What happened was that whenever nominal interest rates, reflecting both inflation and monetary-restraint efforts, rose above relatively low Q ceilings, thrifts and many banks lost deposits; lending, especially for home mortgages, was crimped. Sharp reductions in economic activity, originating in large part from declines in home building, were the outcome. But borrowers apparently were not convinced that the restraint on the economy coming from Q would, or could, be held in place for a long time—which proved to be a correct judgment indeed. Under Q, the economy was set back because credit flows were disrupted; but this acted to prevent interest rates from rising to levels that discouraged borrowers other than those temporarily affected by the Q ceiling. Under Q also, significantly, interest rates couldn't rise to levels that made saving attractive.


Real After-Tax Rate of Interest...
AA Utility Bonds

NOTE: The annual increase in the personal consumption deflator was used to calculate the real interest rate.

At present, Regulation Q is not the factor of importance it had been. Financial institutions are able to issue six-month money-market cer-

MARKET ADAPTATIONS

With significant relief via tax code changes only a distant possibility, the marketplace has begun to make adaptations in response to the problems created by very high nominal interest rates. Some important innovations have taken place in the home-mortgage market, for instance, where cash-flow problems can be most severe. Graduated-payment mortgages and equity-participation mortgages are illustrations of securities that help to reduce the cash-flow problem. But such securities are in their infancy, and no comparable instruments exist as yet in markets for government and corporate securities.

Some steps are being taken, however, by market participants to minimize taxation of what is effectively repayment of principal. Investors in financial assets, for example, are attracted to notes and bonds selling in secondary markets at a deep discount from their original issue price. These, to be sure, provide relatively low current yields but their yields to maturity are competitive with going yields, since when the bonds are redeemed they are redeemed at par. From the point of view of some investors, deep-discount bonds are attractive because of their tax treatment. They offer the prospect of capital gains (taxed at lower rates than ordinary income) and low interest income (fully taxed as ordinary income when received).

And there are other adaptations too. For example, Martin Marietta Corporation has just issued deep-discount bonds. Investors don't get the same capital-gains tax advantage with original-issue deep-discount bonds as with old issues, since the IRS requires that the discount be fully taxed as ordinary income spread evenly over the life of the bond. But there is an advantage to investors nevertheless since deep-discount bonds—with their relatively low coupons—are unlikely to be called or redeemed by the issuer before they mature. This gives the investor much more certainty about his yield to maturity, a very attractive feature. Even more importantly, issues like Martin Marietta's provide advantages to the issuer. As compared with any normal bond, such an issue permits a borrower to reduce his cash-flow strain during the early years of the life of the bond. Meanwhile, under the tax code, a borrower can deduct from his taxable income the full cost of the borrowing (given by its yield to maturity). He can take advantage of the current tax treatment by expensing both interest and discount, and, at the same time, improve his cash flow.

tificates and 30-month small-denomination certificates of deposit, permitting them to attract deposits at market rates. Thus it is now possible for interest rates to rise to levels that produce higher real interest rates than those seen in the past—without disrupting the economy to the same degree. In addition, as noted earlier, interest rates in real terms must be higher in order to dislodge the inflation psychology that ceilings on the cost of credit helped to create.

The distortions in the economy created by high nominal interest rates—and the complexities created for monetary policy—would be eliminated, of course, if inflation were to end. Even the most optimistic view of the future, however, cannot foresee that outcome except over a long period of time. What would help a great deal, obviously, would be a tax code that, in its treatment of interest payments, was not based on premises that are untrue in today's environment.

The U. S. income-tax system treats all interest received as taxable income and allows a deduction against income for all interest paid. In today's inflationary environment, however, much of the interest paid by borrowers and received by lenders is tantamount to repayment of principal. The borrower is treated generously by the IRS in being allowed to claim as deductions sums that are really the amortization of his indebtedness; the lender suffers the fate of having his capital taxed as it is returned.

Suggestions for reform

While neither the problem nor its impact on the economy is as yet widely understood, scattered proposals that would have the effect of partially remedying this situation have been gathering support in recent years. It has been proposed, for instance, that some portion of interest income be exempted from taxation. And recommendations have been advanced for ending entirely the deductibility of mortgage interest payments on second homes and limiting such deductions to some specified dollar amount on primary residences. Such changes would bring U. S. taxing procedures closer to those in Europe, where many countries place limits on the deductibility of individuals' interest expense and where income-tax rates on investment income are generally lower than in the U. S.

The general thrust of such proposals is certainly a logical response to the distortions that arise in an environment of high nominal interest rates. They address in piecemeal fashion, however, a problem that seems to call for a much more general solution. The hypothetical ideal obviously would be a tax system which, on the one hand, completely excluded from income that portion of interest representing repayment of principal and which, on the other, completely disallowed as a deduction against income that portion of interest representing repayment of principal. As a practical matter, however, enormous difficulty would be involved in identifying and allowing for that portion of interest flows representing repayment of principal. And even if those difficulties could be overcome, the obstacles to proceeding with a sudden radical transformation of the tax system would be gargantuan. That is because a change of tax rules "in the middle of the game" would entail a substantial and capricious redistribution of the tax burden–providing windfall gains to present holders of financial assets and inflicting windfall losses on highly leveraged borrowers.

A practical alternative which deserves serious exploration would be to exempt from taxation a certain percentage of interest received and reduce interest deductions by a similar percentage. That percentage could start at a relatively low level and rise over a number of years. Such a proposal would have the advantage of treating interest from all sources equally and it would also minimize the adjustment problems by phasing in the change relatively slowly. Such a system would involve little new record keeping. And it would provide a reasonably good approximation of real interest payments if, after the phase-in period, the percentage of interest income excluded from taxable income was set to approximate the portion of interest that, on average, represented repayment of principal. Adjustment problems could be further minimized by "grandfathering" existing long-term debt arrangements–that is, by continuing to treat interest on such debt arrangements as fully taxable and fully deductible.

Unfortunately, reform of the tax system will not come about easily. At present, without public understanding of the problem, neither Congress nor the Administration is apt to embrace a policy that would represent a significant departure from historical practice. However, the public and officials should realize that inaction will entail a price. In part, that price takes the form of interest rates that have to rise to extraordinarily high levels to offset the incentive to borrow that the tax system now provides the heavily taxed. These same interest rates, however, are grieveously burdensome to low-tax borrowers and to borrowers who have no tax liabilities. Demands for easier monetary policies and special bail-outs inevitably will result. Acceding to them undermines the anti-inflation strategy—and yet, it should be acknowledged, such demands are more than special-interest pleas. They are in fact grounded in the disproportionate and inequitable impact of Federal Reserve monetary restraint needed to curb inflation.

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The Manufacturers
Hanover
Financial
Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, MARCH 30, 1981

VOLUME XVIII, NUMBER 13

Economic Boom or Gloom?

Two extreme points of view have surfaced among those whose job it is to keep their fingers on the pulse of the economy. Some analysts see a resilient economy. Included in this group is the Commerce Department, whose recently released "flash" report showed the real GNP growing at a five per cent seasonally adjusted annual rate in the first quarter compared with the previous quarter. On the other hand, some economists have expressed the opinion that the economy has already slipped into recession.

On close examination, however, it would appear that the available statistics released through the middle of March do not support either view, since the economic indicators for February and March are mixed. Although business activity during the first quarter probably did not keep pace with the final quarter of 1980, neither did economic activity contract. The "flash" report was based primarily on January data, when the economy was somewhat stronger than in subsequent months. And while some statistics may be signalling a slowdown of the economy, others show improvement.

One of the more positive indicators is consumer spending. This sector represents about two-thirds of the overall GNP, and has remained fairly strong. In February, personal consumption expenditures rose by 1.3 per cent to a seasonally adjusted $1,818.2 billion annual rate, following a gain of 1.4 per cent in January. Durable goods consumption increased by a hefty 2.7 per cent paced by a 4.8 per cent rise in motor vehicle purchases. Spending on nondurable goods rose by 1.7 per cent, up from 1.5 per cent in January.

The automobile industry, which has been depressed for well over a year, is clearly showing signs of life. Generous rebate programs offered by domestic manufacturers, aimed at reducing persistently high inventories and boosting production, have stimulated sales significantly. During the last ten-day selling period in February, total sales jumped to a seasonally adjusted 10.3 million unit annual rate—the highest level since September, 1979. Combined with the first 20 days of March, car sales during the last 30-day selling period averaged 9.4 million units at an annual rate—20 per cent more than during the comparable period a year ago. In response, the automakers have begun to step up production of passenger cars and trucks. This, in turn, has stimulated demand for steel with production now running about three per cent above year-earlier levels.

That Is The Question

What is more, the BLS index of sensitive commodity prices, which responds quickly to changes in supply and demand and thus may be used as an indicator of future production levels, turned up in February. Importantly, prices of raw industrial materials rose 3.2 per cent during the five weeks ending March 17, 1981, after a three-month decline. In particular, production of paperboard, after posting year over year declines for most of the past 12 months, has been running well above year-ago levels.

To be sure, some negative indicators have also been released—especially within the past month. Specifically, new orders for manufacturers' durable goods rose by a very modest 0.4 per cent in February, with almost all of the increase accounted for by a sharp 35 per cent jump in orders for defense-related capital goods. Orders for nondefense capital goods plummeted by 14.5 per cent—the largest one-month drop in almost a decade. Industrial production fell by 0.5 per cent in February, after rising only 0.4 per cent the previous month. With the exceptions of mining and defense and space equipment, all major industries and market segments posted declines. The greatest cuts in production took place in the housing-related areas, such as durable goods for home and construction supplies—not surprising, in view of February's plunge in new home starts (Financial Digest—March 23, 1981).

Only Gloom For Federal Finances . . .

On balance, the array of recent indicators does not necessarily point to either recession or vigorous expansion. It probably signals a still growing economy albeit at a slower rate than during the last quarter of 1980. Looking ahead, however, any downturn in activity which does occur will be moderated by the stimulative impact of an ever-

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widening Federal budget deficit. In February, expenditures exceeded revenues by $15.6 billion—$6.3 billion more than the February, 1980 deficit. This brought the fiscal year to date red ink total to more than $56 billion, almost $18 billion higher than the comparable fiscal 1980 period. If these trends persist, the budget deficit for the fiscal year as a whole will exceed $85 billion, or more than $30 billion higher than current Administration estimates—and a new record.

Unfortunately, these trends may not only persist, they may worsen. Despite the added emphasis being placed on national defense, the largest proportion of the fiscal year to date spending increases—about 45 per cent of the $40 billion year over year gain—was accounted for by stepped-up income security outlays, of which inflation-indexed Social Security payments are a major component. By contrast, increased defense spending, while averaging about $1.8 billion per month higher than year-earlier levels, accounted for only slightly more than one-fifth of the expenditure gain.

In the absence of substantial nondefense spending cuts, the current and projected rise in defense outlays will only widen the budget deficit even further. Increasingly, it becomes apparent that the nation can not have guns, butter — and price stability.

Selected Federal Reserve Data

[illegible]

[illegible]	Week Ending 3/18/81	Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	127.444	+ 1.958	+ 3.580
Loans to Depository Inst.	.774	+ .006	− 2.226
Float	3.143	+ .140	− 2.456
Total Reserve Bank Credit	141.438	+ 2.254	+ 4.275
Treasury Deposits with			
Federal Reserve Banks	3.131	+ .109	+ .617
Currency Outside Banks	128.008	+ 1.395	+ 7.564
Member Bank Reserves:			
Required	30.491	+ .623	− 3.774
Excess (Deficiency)	.224	+ .005	+ .044
Total Reserves Held	30.715	+ .628	− 3.730
Net Borrowed Reserves	.357	− .007	− 2.307
Gov'ts held for Foreign Acct.			
by F.R. Banks (End-of-Week)	97.949	+ .220	+21.794

Monetary Aggregates†		[illegible]	[illegible]
M-1A	363.7	− 22.8‡	+ 2.1‡
M-1B	420.6	+ 5.5‡	+ 7.3‡
M-2 (February '81)	1,692.1	+ 5.1	+ 9.3
L (December '80)	2,373.5	+ 2.1	+ 10.3

† Seasonally adjusted

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 3/27/81	[illegible]	[illegible]	[illegible]
‡ U.S. Treasury Bills	12.95%	12.66%	12.12%
* Federal Agencies	13.53	13.38	13.25
* Project Notes—Taxfree			
(46% Taxable Equivalent)	11.94	12.22	12.60
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	13.50	13.50	

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 29 days	14.00%	Apr.	14.00%
30- 59 days	13.80	May	13.80
60-179 days	12.50	Jun.	13.60
180-239 days	12.38	Jul.	13.55
240-270 days	12.00	Aug.	13.30
		Sep.	13.00

‡ Industrial Paper—Prime			
30- 89 days	13.88%	† Federal Funds	
90-120 days	13.75	Effective Rate	15.00%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'80	$ 2,731	$ 2,637	$ 2,496
Gross National Product (1972 Dollars)*	4th Q'80	$ 1,486	$ 1,472	$ 1,491
Percent Change, Annual Rate	4th Q'80	3.8%	2.4%	0.6%
Change in Consumer Prices (all urban consumers)*	Feb '81n	12.0%	8.4%	15.6%
Change in Producer Prices*	Feb '81	9.6%	10.8%	15.6%
Civilian Employment (Thousands of Persons)†	Feb '81	97,927	97,696	97,817
Unemployment as % of Civilian Labor Force†	Feb '81	7.3%	7.4%	6.2%
Personal Income*	Feb '81	$ 2,314	$ 2,299	$ 2,086
Leading Indicators Composite Index (1967=100)†	Feb '81n	138.3	136.9	134.1
Industrial Production Index (1967=100)†	Feb '81	150.8	151.5	152.6
Net Change in Consumer Installment Credit†	Jan '81	$ 0.87	$ 1.82	$ 2.73
U.S. Merchandise Trade Balance†	Jan '81	−$ 4.37	−$ 2.19	−$ 3.72
Plant and Equipment Expenditures*	2nd Q'81	$317.29(a)	$310.59(a)	$294.36
Private Housing Starts (Thousands of Units)*	Feb '81	1,218	1,645	1,273
New Construction Expenditures*	Jan '81	$ 255.6	$ 242.4	$ 259.6
Total Business Inventories†	Jan '81	$ 461.8	$ 456.8	$ 431.4
Total Business Sales†	Jan '81	$ 338.7	$ 332.5	$ 312.5

* Seasonally adjusted annual rate. † Seasonally adjusted. n Newly reported figure. a Anticipated.

. . . And Consumer Prices

As if to underscore this point, the rate of inflation picked up again last month, moving back into double-digit territory. The consumer price index rose by one per cent in February, up from the 0.7 per cent month over month rise posted in January. About 60 per cent of the advance was the result of rising energy prices—gasoline, motor oil, natural gas and electricity—prompted largely by January's decontrol of crude oil prices. The transportation component increased by 2.4 per cent, almost all of which occurred because of the 6.6 per cent rise in gasoline prices—the biggest jump in a year. These gains more than offset the beneficial effects of sagging home prices, the auto rebates and falling meat prices.

Despite the 1.2 per cent decline in housing prices, however, the housing index increased in February by 0.6 per cent. Here again, rising energy prices (particularly home heating oil) were the major culprits, along with a 1.4 per cent gain in mortgage interest rates. Grocery store food prices remained unchanged in February. Meats, poultry, fish and eggs together declined by 2.1 per cent, reflecting the large supplies of beef, pork and poultry on the market. However, the sharp decline in meat prices was offset by rising fruit and vegetable prices, where supplies were substantially reduced by the January freeze. ■

Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/11/81)	112,208	+ 404	+18,240
New York City (3/11/81)	26,952	+ 237	+ 6,577
Commercial Paper (3/11/81)	132,476	+ 474	+13,927

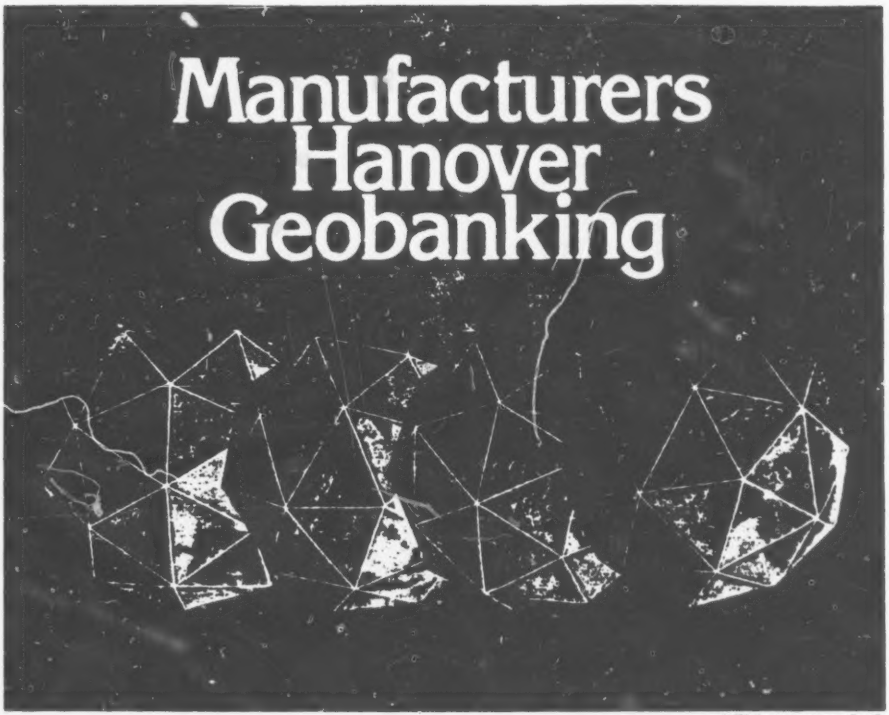
	Commercial and Industrial Loans		
Weekly Reporting Large Commercial Banks			
Nationwide (3/11/81)	168,936	− 1,047	+ 7,302
New York City (3/11/81)	49,419	− 130	+ 1,867
	Total Loans Gross Adjusted		
Nationwide (3/11/81)	421,060	− 4,392	+18,233
New York City (3/11/81)	98,122	− 2,191	+ 7,742

	Friday 3/27/81		
U.S. Governments, Closing Yields:			
90-Day Bills†	13.07%	+ .67	− 3.72
180-Day Bills†	12.67	+ .97	− 4.49
Longest Bills	12.17	+ .57	− 4.38
Recent Issues:			
$13^{5}/_{8}$s 1/31/83	13.63	+ .73	
$14^{1}/_{8}$s 8/15/84	13.55	+ .71	
13s 11/15/90	13.23	+ .80	
$12^{3}/_{4}$s 11/15/10	13.95	+ 1.95	
Municipals:			
Bond Buyer−20 Bond Index* (3/26/81)	10.09%	+ .28	+ .65
Blue List Total ($ Million)	$ 890	+ $169	+ $ 449
30-Day Visible Supply ($ Million)	$2,715	+ $463	+ $1,821
Total	$3,605	+ $632	+ $2,270
Corporates:			
Moody's Aa Composite (3/26/81)	13.90%	+ .26	+ .13
Money Mgr.−30-Day Supply ($ Million)	$4,138	+ $338	+ $2,578
Stocks:			
Dow-Jones Averages:			
Industrials	994.78	+ 1.98	+ 217.13
Transportation	430.29	+ 11.70	+ 188.08
Utilities	107.53	− 1.60	+ 9.80
65 Stocks	386.02	+ 3.13	+ 107.20
Standard and Poor's 500 Stocks	134.65	+ .57	+ 33.97
N.Y.S.E. Composite Index	77.59	+ 5.46	+ 20.77
N.Y.S.E. Avg. Daily Vol. for Week (000's)	57,668	− 1,594	+ 11,510

* 46% Taxable equivalent 18.69%

† Bond equivalent.

	Friday 3/27/81	
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	15.13%	13.25%
1 month	15.00	13.50
3 month	15.13	[illegible]
6 month	15.25	14.13
1 year	15.06	14.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.30%	13.30%
Long Term (7 to 15 yrs.)	14.10	13.20
FOREIGN EXCHANGE SPOT RATES		
New York Opening (3/27/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02875	34.78
Canada	.8422	1.1874
Denmark	.1497	6.6800
France	.1995	5.0125
Germany	.4698	2.1285
Italy	.0009416	1062.00
Japan	.004721	211.80
Mexico	.04211	23.75
Netherlands	.4246	2.3550
Switzerland	.5160	1.9380
U.K.	2.2345	.4472



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TESTIMONY OF

THE HONORABLE RICHARD W. RILEY

SUBMITTED FOR THE RECORD OF

HEARINGS BEFORE THE

COMMITTEE ON THE BUDGET

U.S. SENATE

APRIL 3, 1981

HALL OF THE STATES • 444 North Capitol Street • Washington, D.C. 20001 • (202) 624-5300

Mr. Chairman and Members of the Committee:

My name is Richard Riley, and I am submitting this testimony for the record of today's hearings on behalf of the National Governors' Association. I am the Governor of South Carolina and serve as chairman of the NGA Subcommittee on Management Improvement.

Before turning to the principal subject of today's hearings, the impact of the FY 1982 budget on state and local governments, I would like to take a minute to thank the Budget Committee, on behalf of all the Governors, for two decisions made by you during your mark-up sessions on the reconciliation instructions. The two were:

1. to accept on a consensus basis a motion made by Senator Chiles permitting the Finance Committee flexibility to achieve through Medicare reforms some of the savings assumed by the President to be realized by the imposition of a Medicaid cap; and
2. to insert in the reconciliation report language urging the authorizing committees of Congress to recommend program revisions that increase the flexibility permitted to state and local governments to manage federal funds.

By these actions, you have already begun to respond to the two major points that I will be emphasizing in my testimony:

1. Of all the proposals made by President Reagan affecting state and local governments, the cap on federal participation in the Medicaid program concerns Governors the most. We support an alternative package of reforms in the Medicare and Medicaid programs to achieve savings.
2. The unprecedented spending reductions in federal-state programs highlights the need for a concerted effort to reform the

federal aid system along the lines you outlined, Mr. Chairman, when you met with the National Governors' Association during its 1980 winter meeting. Specifically, we support sorting out of roles and responsibilities among levels of government, increased flexibility for state and local governments to manage partnership programs, modification of unfunded mandates, and adequate lead time for state and local governments to adjust to the new funding levels and new administrative framework.

For your information, Mr. Chairman, I am submitting for the record a copy of the policy position on the budget adopted by the National Governors' Association on February 24 and a copy of our analysis of the President's March 10 budget proposals. I will turn now to our response to the President's economic recovery plan and to our assessment of the impact which the President's budget recommendations will have on the states.

THE ECONOMY

The economic problems which the nation faces have affected adversely the finances of both the federal government and state and local governments. Many states are having considerable difficulty in maintaining the balanced budgets which their laws and traditions require. Revenues are well below forecasts, and significant program cuts and/or tax increases are being made. As of the end of last year, twenty-one states were experiencing revenue shortfalls, seventeen states had imposed across-the-board spending cuts (reductions ordered in Michigan were 20%; in Oregon, 10%), fourteen states had imposed hiring freezes; twelve states had frozen capital construction projects, and nineteen states had imposed a total of twenty-eight tax increases in 1980.

Solving the economic problems that have led to shrinking state revenues is the single most important thing the federal government can do to ensure adequate funding for programs states have designed to meet their most pressing needs. Therefore, we strongly support the development of an aggressive national economic recovery plan and applaud the President for boldly facing the problems and for creating a favorable climate for congressional action.

EFFECT OF THE PRESIDENT'S SPENDING PROPOSALS ON THE STATES

The Administration proposes to reduce FY 1982 grant outlays to $86.4 billion, or about 13.5% below the $99.8 billion level planned in the Carter budget and 14.5% below the $101 billion necessary to maintain current service levels. Of the $48.6 billion in FY 1982 outlay savings proposed by the President, state and local grants will bear $14.6 billion, or about 30%, of the cuts. If enacted, the Reagan budget would reduce grants to state and local governments in real terms for the fourth consecutive year.

Prospects for recouping any of the grant reductions in future years are grim, as the reductions in budget authority for grant programs are even greater than the outlay reductions. Of the $58.9 billion in budget authority reductions the Administration recommends, about $34.7 billion, or nearly 60%, are in state and local aid.

The Administration's projections show grants to state and local governments falling from 15.8% of the federal budget in FY 1980 to 12.4% in 1982 and to 9.7% in 1986. We estimate that federal grants would drop as a result from 26.3% of state and local spending in FY 1980 to about 15% in FY 1986.

In addition, we estimate that states would lose about $500 million in corporate income tax revenues, or about 3% of all such receipts, during calendar 1981 if the Administration's 10-5-3 accelerated depreciation tax cut is effective as of last January 1. These losses result because all 46 states with corporate income taxes follow federal depreciation rules. By 1986, state corporate income tax losses would reach $8.8 billion, or 27% of all such receipts.

President Reagan's budget recommendations represent a dramatic attempt to cut government spending and to undertake a fundamental change in federal, state and local government relationships. I will be focusing my remarks on proposals in four areas: the Medicaid cap, the need for reform in the federal aid system, the block grant initiatives, and the effect of inflation on the priorities of the three levels of government.

MEDICAID

Unlike Medicare, which finances health care for the elderly and is exempt from the Administration's budgetary review, Medicaid would be held to 5% growth in federal outlays in FY 1982 in the face of hospital costs that are rising between 15 and 20% a year. About 30 states are now facing significant difficulties in funding the program, and many are finding that despite substantial efforts to achieve economies, the program's cost increases are forcing reductions throughout the rest of state government.

States, which pay 45% of Medicaid costs nationally, already have enormous incentives to realize savings in this program. We believe the Administration's proposed medicaid cap, however, would be inequitable and would not achieve the desired results. The cap would have widely varying implications for individual states, depending on economic conditions, current service coverage, eligibility policies, and cost containment efforts already undertaken.

The Administration has proposed to accompany the Medicaid cap with the flexibility, which states do not have now under federal law, to act as prudent purchasers of health care. Even with the flexibility, however, states will have a limited ability to influence hospital costs when no revisions are planned for the far larger Medicare program's inflationary, cost-based reimbursement policies.

As an alternative to the Administration plan, we have proposed a three-part program for achieving cost savings, including greatly needed administrative flexibility for the states to act as prudent purchasers of medical care, a 10% interim cap on Medicare hospital service reimbursement rates, and an interim 7% cap on the nursing home component of Medicaid, with a block grant for this part of Medicaid beginning after FY 1982. This alternative places controls on the major purchasers of services from hospitals and nursing homes and therefore focuses the opportunities for controlling costs most effectively. By our calculations, this program would achieve savings of a minimum of $2.3 billion in FY 1982. I am submitting for the record a more detailed outline of our Medicaid proposal.

The Senate Budget Committee, as I noted earlier, has already begun to accommodate our concerns in this area during its consideration of the reconciliation instructions. To the extent that the Committee's action on the first concurrent resolution for FY 1982 deals again with health matters, we hope the Committee assumptions will incorporate the Chiles amendment. This would permit the Finance Committee to adopt cost saving measures like the NGA alternative to the Medicaid cap.

FEDERAL AID REFORM

The Budget Committee has already acted, through the report language on reconciliation, to encourage the authorizing committees to consider program reforms at the same time they are making program reductions. We would appreciate it if the Committee could include similar language in the report accompanying the first budget resolution and would inform the Senate of the progress that the Committees have made in achieving reforms in the five areas listed in the reconciliation report. Beyond this, there are other opportunities for the Committee to encourage fundamental "refederalization" reforms suggested by you, Mr. Chairman, in your 1976 Wall Street Journal article. The Governors call the process you suggested "sorting out".

In the long run, the Administration's projections for the outyears show a trend toward increasing state responsibility for income-support and medical care financing programs. We agree with your Wall Street Journal thesis, Mr. Chairman, that these programs should be primarily a federal responsibility. In our view, such fields as law enforcement, education, and transportation—as part of the process of realigning and sorting out the roles and responsibilities of government—should be primarily a state responsibility.

The Budget Committee has an opportunity to highlight the sorting out issue when it considers its recommendations for the outyear budget numbers. We understand that Senator Durenberger is working on a proposal to trade federal assumption of the state/local share of Medicaid for reductions in other federal-state programs. We view this proposal as a positive effort to ensure that the post FY 1982 federal aid system is a reformed, "refederalized" partnership, not a smaller version of the current system in which duplication, overlap, inflexibility, and inefficiencies are magnified by the shrunken funding levels.

We hope to work with you to ensure that the outyear numbers in the first resolution for FY 1982 reflect a "refederalization" of the relationship between Washington and the state capitols.

BLOCK GRANTS

Although the Administration is substantially reducing federal aid to state and local governments, it is proposing eight new block grants that would increase flexibility in adjusting to the cuts. Our analysis shows that flexible funds, represented by revenue sharing and block grants, accounted for 16.6% of FY 1982 state and local grants under the Carter budget but would rise to 38% under the Reagan budget.

Because of the tight schedule on which the Administration developed its budget recommendations, neither state and local officials nor members of Congress have been extensively involved in the design of the proposed block grants. We therefore view the Administration's forthcoming block grant bills as a starting point. Because we jointly fund these programs with the federal government, because we administer them on your behalf, and because we share your concern about such issues as equity, access, and protection of individual rights, we intend to participate vigorously in the determination of the final design and funding aspects of the block grants.

There are several general observations that can and should be made at this point. Governors will vigorously support block grants in areas other than income assistance and medical care financing, having long argued that such an approach would allow states not only to meet federal goals more effectively but to target their own resources, often skewed and dissipated by the categorical grant system, to meet the most pressing needs of their citizens.

The Governors have estimated the administrative savings of block grants at about 10%; the administration is proposing cuts of 25%, not including inflation in FY 1981. There is thus little doubt that the block grants will result in reduction in services, although the extent of this reduction is difficult to estimate without specific legislation on which to base judgment

Congress should take two major steps, apart from adjusting funding levels, to minimize service reductions. First, it should maximize flexibility and insure that the flexibility and the funding cuts arrive simultaneously. Second, it should move as quickly as possible on the block grants to insure that state and local governments will have maximum lead time to implement them.

If action on the block grants is not completed until shortly before the federal fiscal year begins next October 1, most state governments will be three months into their fiscal year without firm ideas on how these important programs will operate. Most state legislatures will have adjourned, and will either have to be called into special session or will have to return in January to rewrite state budgets and state laws governing the operation of these programs. The need for state action may further complicate local government adjustments to these programs.

Although these problems are substantial, Governors believe that the long range benefits that block grants offer in terms of increased efficiency and healthier balance among federal, state and local government responsibilities makes tackling the block grant issue now well worth the effort. The alternative is reduced federal funding with proportionally higher overhead costs across a broad range of activities, thereby insuring that services to people bear the full brunt of the budget cuts.

EFFECT OF INFLATION

The Administration plans to reduce outlays for discretionary grants to state and local governments from $57.2 billion in FY 1980 to $47.2 billion in FY 1982 and down to $45.1 billion in FY 1986. The reduction is even larger in real terms. Assuming 10% annual inflation from FY 1980 to FY 1986, these grants would have to reach $101 billion to match their 1980 purchasing power. Thus, the $45 billion in outlays would represent a 55% loss of purchasing power in grants ranging from highways to community and economic development programs, from education to health care and social services.

In addition, real reductions are contemplated in income assistance grants, which are scheduled to grow only 3.7% a year from FY 1981 to FY 1986, a rate below even the Administration's inflation forecast. This would require either increased state and local funding of income assistance grants or further reductions in eligible recipients if benefit levels are to offset the effects of inflation.

Despite real reductions in state-administered income assistance grants, overall payments to individuals will remain at about 46% of the federal budget through 1986. Thus, direct federal programs, such as social security and Medicare, will grow while state-federal programs, such as welfare and Medicaid, decline.

This dichotomy raises a second important consequence, that of equity. Congress will have to decide whether the safety net for beneficiaries of direct federal programs should be more secure than the safety net for recipients of state-federal programs. If the rate of inflation remains high, we urge this committee and Congress to examine alternative means of achieving savings, such as revised indexing techniques in entitlement programs.

SUMMARY

In conclusion, Mr. Chairman, we hope that the first budget resolution will:

1. permit the Finance Committee the flexibility to adopt an alternative to the Medicaid cap;
2. contain language similar to the "state-local transition flexibility" section inserted in the reconciliation report; and
3. reflect your "refederalization" concept and a committment to long-term federal aid reform in its outyear recommendations.

Having been forced in recent months to impose substantial budget cuts themselves, the nation's Governors fully understand the serious problems now facing Congress. We are committed to work cooperatively with you in achieving the savings you desire and in minimizing the impact on the people that we both represent and serve.

The Governors share the President's concern about the high inflation, high unemployment, and low productivity that afflict the nation's economy. Firm short-range measure are required to put the economy back on track.

We share with the Administration the belief that federal expenditures must be brought under control, and we are prepared to accept budget cuts — but we will vigorously oppose any attempts to shift costs to state and local taxpayers. Our support for specific cuts is based on the following principles:

1. State Governments must have sufficient lead time to adjust their own laws, budgets and administrative procedures to major changes in federal funding or policy.
2. Increased flexibility in administering federal programs must come simultaneously with budget reductions for the cuts to be acceptable.
3. Legislative and regulatory proposals to implement the President's plan must be developed in close consultation with state officials. This detailed consultation must begin immediately.
4. The federal government, as the Governors have long maintained, should move toward primary responsibility for welfare and Medicaid while state and local governments move toward primary responsibility for such fields as law enforcement, education, and transportation.
5. THE FEDERAL BUDGET REDUCTIONS MUST NOT RESULT IN IMPOSING AN UNFAIR AND DISPROPORTIONATE BURDEN UPON THE POOR, THE DISADVANTAGED AND THE HANDICAPPED.

WE PLEDGE OUR ASSISTANCE IN WORKING WITH CONGRESS TO ASSURE THAT THE PROGRAMS WE JOINTLY DEVELOP ARE ENACTED. WE WILL ALSO WORK TO ASSURE THAT STATE GOVERNMENTS ARE PREPARED TO ACCEPT THE RESPONSIBILITIES OF RESTORED FEDERALISM.

WEDNESDAY, FEBRUARY 11, 1976

Do the Feds Have to Do Everything?

By Pete V. Domenici

Amid all the jousting between Ronald Reagan and President Ford, a concept well worth nurturing is in danger of being trampled.

I suspect the intuition that prompts Reagan's plan to turn back $90 billion in federal programs to the states is the same intuition that produced Ford's State of the Union proposal to consolidate a number of federal categorical programs to aid state and local governments into four bloc grants and continue general revenue sharing.

As The New York Times and Wall Street Journal, and Milton Friedman, have written, "There's an idea behind all the [illegible]."

Indeed, an idea struggles to emerge from the thrust and counterthrust of the [illegible] an idea frequently admitted by most political thinkers and explicitly by most mayors and governors. That idea is simply that the federal system, that interrelationship between the national government and local and state governments, stands in 1976 badly in need of re-invigoration.

For want of a better word, let me propose that the notion that needs to be nurtured in this debate can be called "re-federalization." That's the word I use to describe a process I would urge the federal government to embark upon during the next decade. This process would start with the goal of establishing the political and fiscal independence of federal, state, and local governments by having the federal government fund and administer totally "national" programs and leaving to state and local governments the financing and running of programs designed to meet "local" needs.

Re-federalization, as I see it in a finished form a decade from now, would result in an orderly "trade" of certain programs between local and state governments and the federal government. In essence, state and local governments would be relieved of helping fund national programs, and could use the savings to fund and entirely administer, if they wished, local programs now financed partially with federal grant monies.

Our federal system revolves around the concept that certain problems are national in character, such as defense, and demand attention from the national government; while other problems, which might be nationwide, are nevertheless the proper province of state and local governments.

The Growth of Federal Ascendancy

Until the Great Depression and the federal government's massive efforts to overcome it, the federal system remained more or less similar to that begun in 1789. Washington provided a monetary system, armed forces, promoted the general welfare and, except for limited excursions into business regulation and the income tax, left most other matters to the states and localities.

Federal ascendancy began during the 1930s and that ascendancy has now left state and local governments little more than "administrative provinces" of the national government.

The reason behind this ascendancy is not complicated, for it follows from the basic law of politics—power is where the money is. He who controls the purse strings, controls policy. And Washington in 1976 controls the purse strings.

Recognition of this fact may account for the findings of recent pollsters that the American people feel helpless to control their own fates and that government leaders don't really care about the average man. Government has gotten so far removed from the people that the people feel impotent to change it or its policies. The Watergate debacle, the aftermath of Vietnam, recent revelations of misdeeds by government agencies over the past 25 or 30 years, a huge increase in federal government spending and taxes despite public outcry, and the inability of anyone to come up with a clear and rational plan to stop the recession-inflation affliction all contribute to the alienation of the governed from [illegible] government.

But, as much as anything, it seems to me this alienation results from the belief of many Americans that nobody really cares about their problems in a personal way. I suspect that attendance at meetings of local government would increase, and citizen demand for accountability on the part of local officials would rise, if the people really knew that local and state officials had full control over the issues being addressed. But sparsely attended city council meetings are a testament to widespread recognition that too many issues under consideration will really be decided not by the men and women at the council table, but by a federal regulation, a federal law, or a faceless federal bureaucrat.

Powerless to control their government, then, the American people have responded by simply saying, "Get off our backs." It doesn't take [illegible] appreciation of American political theory to recognize that "Get off our backs" stands as a very unsteady foundation on which to base the [illegible] century of American democracy.

Amid the Ford-Reagan jousting there's an idea struggling for expression—that a change is badly needed in the interrelationships between the federal government and state and local governments.

Resentment [illegible] federal dictation of local and state policy [illegible] more than a vague paranoia [illegible] domination by Washington is a fact.

The federal government handed out $2.1 billion in aid to state and local governments in 1952. It now provides almost $60 billion—an increase in 20 years of 1,600%. Federal aid to these states and local governments makes up a full 22% of all state and local government expenditures.

State and local spending priorities, which vary from community to community, let alone from state to state, are overruled by the need to match "free grant money" from the federal government. Many a budget officer has been told by a mayor or governor, "I don't care what your priorities are, get that matching money from somewhere. We can't turn down that federal money." This occurs despite an often less than overwhelming need for the program simply because mayors and governors cannot often politically withstand accusations of "letting all that money pass us by."

Aid programs and matching requirements do much worse than distort state and local priorities. They waste money, lead to overlapping programs, and citizen resentment and confusion. Important projects fail and this is the greatest indictment of the present system.

Re-federalization, in the form of program trades I mentioned earlier, could be the key to clearing away this wasteful intergovernmental jungle.

For example, in fiscal year 1975 the state and local share of running both Aid for Families with Dependent Children (AFDC) and Medicaid was about $10 billion. The federal share was approximately [illegible] billion.

That same year, state and local governments in America received about $10 billion from direct federal aid programs.

In 1953 the Commission on Intergovernmental Relations (the Kestnbaum Commission) evaluated the divisions that ought to exist between federal, state, and local government, and made a careful report to President Eisenhower. Five years later, Mr. Eisenhower received the report and recommendations of the Joint Federal-State Action Committee. Within a decade, Richard Nixon (drawing heavily on the work of Richard Nathan, now of Brookings Institution) announced his "New Federalism."

The Kestnbaum Commission, the Federal-State Committee, and Mr. Nathan developed independently lists of what ought to be "national" problems confronted by federal government activity and what ought to be problems whose solutions should be reserved to state and local governments. These recommendations are not precisely the same, but are similar enough to indicate that consensus on a division between "national" programs and "local-state" programs can be achieved.

My research reveals that in categories generally defined as essentially "local" in nature by Mr. Nathan, the commission, and the committee, the federal government gave state and local governments $10 billion in fiscal 1975.

This $10 billion, only one-third of the [illegible] billion total federal aid to state and local governments, breaks down as follows:

—Urban mass transit, [illegible] million;

—Community and regional development grants under 25 programs, $3.4 billion;

—Education, employment training, and social services, [illegible] billion in state and local direct aid;

—Health, other welfare-type programs, and law enforcement, [illegible] billion, [illegible] billion, and [illegible] million respectively, in grant aid.

This $10 billion is much larger than the [illegible] billion spent by state and local governments to help administer AFDC and Medicaid.

Deceptively Simple

My suggestion as a possible starting place is deceptively simple: the federal government could take over AFDC and Medicaid entirely and "trade" some $10 billion of its categorical grant programs entirely to states and local governments.

Then states and local governments would be freed from a $10 billion bill that is essentially "aid to Washington" to run AFDC and Medicaid, and could choose at the state and local level how to deal with the programs that would no longer be funded by federal [illegible] money. They could pick and choose from the $10 billion worth of aid, for example, [illegible] many of the federal aid programs do not fit into particular local and state spending priorities. This might lead to action [illegible] local and state tax reductions or expansion or adoption of programs that truly deserve priority in the particular state or locality. The decision and the assignment of priorities, would be made where it belongs—within state and local governments.

To my conservative colleagues in the Senate (and I am usually counted among them), I answer their objections to "federalizing" welfare simply by pointing out that we have already begun to do so through Supplemental Security Income programs. Logic dictates that this national concern (income maintenance and redistribution) be done at the national level, in light of the historically greater efficiency of tax collecting and distributing done by the federal government.

To my liberal colleagues, and I find myself often in agreement with their social concerns, I must say that leaving education and other social program decisions to state and local governments might entail some risks of cuts. I believe such risks are minimal because under my proposal, unlike the bloc grant system once advocated, the states would retain the same amount of money for education that they now receive from the federal government. Too, local and state officials might prove [illegible] less sympathetic to social programs than federal elected officials, though often they might prove more sympathetic. I opt for giving them a chance to be responsible by giving them responsibility.

But let me reiterate. Decisions on local problems should be left to the state and local governments and the individuals affected. If special education is chosen over a waste water treatment plant, it will at least be because local participation has determined that special education is a higher priority for that community at that time than the waste water treatment plant.

That's the way to reinvigorate state and local government and reassure the citizens of this nation that their ideas, their problems, their priorities do count and their voices do make a difference.

Senator Domenici (R., New Mexico) is a member of the Senate Budget Committee and former mayor of Albuquerque, N.M.

Appropriations Committee, and the changes in the authorization for FY 1981, FY 1982 and FY 1983 is contemplated in the instruction to the committee with substantive jurisdiction. There is, as a result, some duplication between the instruction to Appropriations and instructions to authorizing committees. In instances where there is an overlap, both committees will be credited with savings against the amounts they are instructed to report.

The Committee is concerned about the problem of fraud, waste and abuse in Federal programs. It has taken two separate actions relating to this problem: First; it included section 11 of the resolution which calls on the Governments Affairs Committee to report legislation strengthening the Inspector General Act so as to strengthen accountability for Federal expenditures. The Committee believes substantial spending reductions can be achieved through such legislation. Second, in the section of this report dealing with reductions of enacted appropriations, the Committee recommends that bureaus or agencies whose primary functions are to fight waste, fraud, and abuse be exempted from the budget reductions required by the resolution.

ADMINISTRATIVE SAVINGS

The Committee urges the President to act expeditiously to implement the administrative changes he has proposed to reduce spending; and to propose legislation consistent with his recommendations for reduced spending for those programs. Furthermore the Committee believes that Congress should constrain appropriations so as to achieve savings, in addition to the savings which will result from the changes in laws required by this resolution, at least equal to the amounts proposed by the President.

STATE-LOCAL TRANSITION FLEXIBILITY

Many of the funding recommendations made by the Committee are based on the assumption that increased flexibility will be available to State and local governments. Therefore, it would be appropriate that whenever a Senate committee recommends the reduction of funds available to State and local governments, it should recommend, where possible, program revisions which increase the flexibility permitted to State and local officials to manage Federal funds so that the needs of program beneficiaries are met most effectively. Revisions reported pursuant to this section could:

First, consolidate similar programs into block grants and eliminate laws, rules, and regulations relating to the categorical grants in favor of established goals which State and local governments can meet in the most effective way possible.

Second, eliminate laws, rules, and regulations relative to program areas where substantial cuts are made in order to allow State and local governments administrative flexibility necessary to minimize the impact of the cuts.

Third, make provision for adequate lead time to adjust State and local laws and practices to the new funding levels or changed authorizing legislation.

Fourth, eliminate the requirement that specific administrative units, advisory boards, or other bodies be established as a condition for receiving funds.

Finally, modify mandates not fully funded by congressional appropriations.

National Conference of State Legislatures

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The Proposed FY 1982 Federal Budget

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March 13, 1981

Overview

Three major features of the Reagan budget proposals are:

- Significant spending reductions, with FY 1982 outlays to be reduced $41.2 billion below amounts required to maintain current policy, and larger future spending cuts;
- Significant tax reductions, with FY 1982 receipts to be cut $53.4 billion below the amounts that would be available without the proposed tax reductions; and
- Continuation of a sizable federal deficit in the near term, with revenues to fall short of budget spending in FY 1982 by $45.0 billion, plus a $16.7 billion "off budget" deficit, and even more if less optimistic economic assumptions were used. However, the President projects a surplus by FY 1984.

Decisions in the budget that have a significant impact on state and local governments include:

- an interim cap on the Medicaid program, resulting in a $2 billion reduction in federal payments in FY 1982 and $270 million in federal savings from accelerated collection of disallowed state Medicaid claims;
- consolidation into block grants of programs in the areas of health services, preventive health, social services, emergency assistance, aging, elementary and secondary education, highway and youth training programs, with sizable cuts occurring in most cases.
- requiring each state to establish a workfare element as part of the AFDC program and achieving miscellaneous other savings in the program for a total of $1 billion;
- reductions of $2.3 billion in food stamp benefits;
- elimination of public service employment programs;
- consolidating Urban Development Action Grants with the Community Development Block Grant program;
- a $2 billion reduction in funding for highway programs in FY 1982 with the assumption that states will take responsibility for all highway-related spending--except interstate, primary, and bridge programs--after 1983;
- phasing out federal support for mass transit operating assistance by 1986;
- adopting the decision made by President Carter not to fund state revenue sharing;

- rescission of $700 million in FY 1980 wastewater treatment grants and $1 billion in FY 1981 funds;
- elimination of basic Economic Development Administration programs;
- a shift in the mix of assisted housing to new construction from 50/50 to 55/45;
- elimination of state energy conservation grants; and
- reductions below the January budget of Section 8 assisted housing budget authority totaling $5.1 billion in FY 1981 and $9.9 billion in FY 1982.

THE ECONOMICS OF THE PROGRAM

The budget proposals are based on a set of economic assumptions that reflect a modest upsurge in economic performance in 1981, followed by a significant improvement in economic growth, inflation, and unemployment in 1982 and the maintenance of those improved levels through 1986. While the economy has reached the Administration's targets in the past, the Reagan economic assumptions are somewhat more optimistic than either the January Carter budget or some private forecasts.

As shown on the next page, the Administration projects that real--or inflation adjusted--Gross National Product (GNP) will increase by only 1.1% in 1981 but will jump sharply--by 4.2%--in 1982, by 5% in 1983 and by over 4% annually through 1986. The 1982-86 growth rates are roughly comparable to the U.S. economic performance from 1962-1968 and again from 1975-1978. On the inflation front, the Administration forecasts that the increase in the Consumer Price Index (CPI) will hit double digits (11.1%) for the third consecutive year in 1981, but will decline substantially to 8.3% in 1982, 6.2% in 1983, and 4.2% by 1986. At these levels, inflation would fall back to the approximate pre-OPEC level that existed from 1968-1972, but would still be higher than the 1-2% rate in the 1959-1965 period. Unemployment, on the other hand, is projected to rise from 7.2% in 1980 to 7.8% in 1981, but then decline steadily to 5.6% by 1986.

The Reagan forecast is somewhat more optimistic than either the forecast presented with the Carter budget or the projections of some private economists. (See table 1.) The Carter budget was based on more moderate projections of economic growth and a more gradual slowing of inflation in all years. A recent Data Resources, Inc. forecast, however, is more optimistic about real GNP growth in 1981 (1.6%), but projects lower levels of growth in 1982-1983 and somewhat higher CPI increases in all years than the Reagan budget.

If the Administration economic targets are not met, it will adversely affect efforts to balance the budget by 1984. The Carter Administration, for example, estimated that 1% lower growth in real GNP during 1981-1982 would add $19 billion to the FY 1982 deficit because of a reduction in tax receipts and higher outlays for unemployment insurance and other income maintenance programs. If the economy proceeds on the course plotted by the Reagan budget, however, the effect should be to improve state and local tax bases and make adjustments to the proposed budget cuts somewhat easier.

TABLE 1: COMPARISON OF ECONOMIC FORECASTS
ANNUAL PERCENTAGE CHANGE IN ECONOMIC INDICATORS
(Calendar Years)

	1980 Actual	1981	1982	1983	1984	1985	1986
Reagan Budget							
Real GNP	-0.1	1.1	4.2	5.0	4.5	4.2	4.2
CPI	13.5	11.1	8.3	6.2	5.5	4.7	4.2
Unemployment 1/	7.2	7.8	7.2	6.6	6.4	6.0	5.6
Carter Budget							
Real GNP	-0.1	0.9	3.5	3.5	3.7	3.7	3.7
CPI	13.5	12.5	10.3	8.7	7.7	7.0	6.3
Unemployment 1/	7.2	7.8	7.5	7.1	6.7	6.3	6.0
Data Resources, Inc. 2/							
Real GNP	-0.1	1.6	3.5	2.9	N/A	N/A	N/A
CPI	13.5	11.5	10.2	8.8	N/A	N/A	N/A
Unemployment 1/	7.2	7.4	6.9	7.0	N/A	N/A	N/A

1/ Annual average rate.

2/ Data Resources, Inc. Control Forecast as of February 24, 1981.

TAX PROPOSALS

The President has not changed the individual and corporate income tax reduction proposals submitted with the February 18 budget or the estimated revenue effects of the proposals. His revenue legislation has been introduced in the House as H.R. 2400 and in the Senate as S. 683. The Administration calls for a 30% reduction in all individual income tax rates phased in over three years beginning July 1, 1981, a substantial acceleration of depreciation recovery periods for capital assets, and a simplification of depreciation rules. Under the Accelerated Cost Recovery System, which would be phased in over five years, most new or used capital assets placed in operation after December 31, 1980 would be assigned to one of the following three recovery periods and written off on an accelerated basis over that period:

- All owner-occupied factories, stores, and warehouses and long-lived utility property would be written off over ten years;
- All other machinery and equipment and public utility property with a current useful life of 18 years or less would be placed in the five year class; and

- Autos and light trucks and the capital costs of research and development would be assigned a three year period.

In addition, non-owner occupied commercial buildings and low income rental housing would be depreciated on a straight line basis over 15 years, and other rental housing would be depreciated over 18 years.

The individual tax proposals are estimated to reduce FY 1982 federal receipts by $44.2 billion, a cost that rises to $162.4 billion by FY 1986 as the 30% reduction is implemented fully. The accelerated depreciation schedules will reduce tax collections by $9.7 billion in FY 1982 and by $59.3 billion in FY 1986.

The proposed depreciation changes are likely to cause a substantial reduction in state corporate income tax receipts because all states with such a tax now follow federal depreciation rules. In more than half of these states, federal guidelines are incorporated automatically into the state tax code. Based on Administration estimates, the reductions in state corporate income tax liability could reach $500 million in 1981 and $8.8 billion by 1986. Assuming past growth rates, these losses amount to 3% of state corporate receipts in 1981 and 27% in 1986. For further information, see the NGA/NCSL analysis, "The Economic Recovery Plan: Impact on the States," February 20, 1981 and "Federal Tax Policy: Implications for the States," NGA InfoLetter, January 15, 1981.

No details are provided on a "second tax bill" dealing with the marriage penalty, interest income exclusions and other matters to which the President alluded in his February 18 message to the Congress. No revenues are available for such measures under current projections if the budget is to be balanced by 1984. Presumably, they would have to be financed by eliminating other tax expenditures or realizing stronger than anticipated economic growth.

GRANTS TO STATE AND LOCAL GOVERNMENTS

In total, the Administration proposes to reduce grant outlays to $86.4 billion in FY 1982, or some 13.5% below the $99.8 billion level planned in the Carter budget and approximately 14.5% below the $101 billion necessary to maintain FY 1982 grant outlays at their current service levels. In other words, of the $48.6 billion in FY 1982 outlay savings proposed by President Reagan, grants to state and local governments have borne roughly 30% of the reductions. This includes approximately $12.5 billion in cuts proposed on February 18 and an additional $2.1 billion resulting from new cuts and budget re-estimates announced on March 10. If enacted, the Reagan budget would reduce grants-in-aid in real terms for the fourth consecutive year.

In addition, prospects for recouping any of the grant reductions in future years are limited, as the reductions in budget authority for grant programs (a determinant of future spending) are even greater than the outlay cuts. Of the total $58.9 billion in budget authority reductions the Administration made from the Carter budget, approximately $34.7 billion, or 59%, are in state and local grant programs. The primary differences between the authority and outlay reductions occur in subsidized housing and in highway, mass transit and wastewater treatment programs where the Administration proposes to stretch out the construction schedules.

Implication of Planned Future Reductions

Current legislation requires that budget submissions contain expenditure and revenue forecasts for future fiscal years, thus enabling an examination of the "out-year" consequences of proposed spending levels. The Reagan out-year projections indicate a clear policy of reducing federal domestic responsibilities and potentially shifting long-term financial obligations to state and local governments. This can be seen by comparing the shares of the budget devoted to various types of programs in the last complete year (FY 1980), in FY 1982, and in the final year of the Reagan budget forecast (FY 1986).

TABLE 2: PERCENTAGE DISTRIBUTION OF FEDERAL OUTLAYS

Program Category	FY 1980	FY 1982	FY 1986
National Defense	23.4%	27.2%	35.9%
Direct Federal Payments for Individuals (e.g., Social Security and federal employee retirement)	40.9	42.9	41.8
Grants to State and Local Governments	15.8	12.4	9.7
Payments to Individuals (e.g., AFDC and Medicaid)	(5.9)	(5.6)	(5.0)
All Other Grants	(9.9)	(6.8)	(4.7)
Net Interest on Federal Debt	9.1	9.8	6.6
Other Federal Domestic Programs (FAA, Park Service, Coast Guard, Agriculture Subsidies, Administration)	10.9	7.7	6.1
TOTAL	100.0%	100.0%	100.0%

The trend in these projections makes clear that the Administration plans to reduce considerably current federal emphasis on domestic programs other than payments to individuals. Payments to individuals, either through state-administered programs such as AFDC or federally-administered ones such as Social Security, remain at about 46% of the budget. National defense expands substantially at the expense of "other grants" such as highways, employment and training, and community development and at the expense of federally administered domestic programs.

The Administration plans to reduce outlays in grants to state and local government, other than those for payments for individuals, from $57.2 billion in FY 1980 to $47.2 billion in FY 1982 and down to $45.1 billion in FY 1986. This reduction in absolute dollars translates into even greater reductions in real terms. Assuming 10% annual inflation from FY 1980 to FY 1986, these grants would have to reach $101.3 billion in FY 1986 to match their purchasing power in FY 1980. Thus, the $45.1 billion in planned grant outlays in 1986 would represent a 55% reduction in purchasing power.

Apparently, real reductions are also contemplated for grants to state and local government for payments for individuals. This program category is scheduled to grow only 3.7% annually from FY 1981 to FY 1986, a rate below even the inflation forecast of the Administration. This would require either increased state and local funding or further reductions in the number of eligible recipients if benefits are to offset the effects of inflation.

The Carter Administration's budget indicated that FY 1980 grant outlays of $91.5 billion totalled 26.3% of state and local expenditures, implying a state and local spending total for that year of about $350 billion. If that spending were to grow 10% annually through FY 1986, total state and local expenditures would be $620 billion and grants of $92.4 billion (the level of grants-in-aid President Reagan forecasts for FY 1986) would be 15% of state and local budgets.

Unspecified Future Reductions

The Administration's claim of eventual budget balance is explicitly predicated on the concept that the Administration can and will recommend further budget cuts of substantial magnitude affecting FY 1983 and subsequent years. The degree to which the balanced budget relies on the unannounced cuts is shown in Table 3.

TABLE 3: PLANNED DEFICIT WITH AND WITHOUT UNSPECIFIED SAVINGS
($ billions)

	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986
Planned Budget Deficit or Surplus	$-45.0	$-22.8	$ 0.5	$ 5.8	$28.2
Unspecified Savings	0	-29.8	-44.2	-43.7	-42.7
Deficit Without Unspecified Savings	-45.0	-52.6	-43.7	-37.9	-14.5

The Administration provides no basis for informed speculation on the extent to which future savings might come at the further expense of grant programs. The unspecified savings amount to 3.9% of total spending in FY 1983 and 5.4% of spending in FY 1984. Interest on the federal debt is clearly uncontrollable and the Administration has committed to maintain Social Security benefits and other basic "safety net" programs. If one assumes that interest costs, safety net programs, and national defense are exempt from reductions, domestic programs (including grants) would have to be reduced by 25% on the average to reach the Administration's target outlay ceiling. Alternately, future reductions could be made by modifying the inflation adjustment provisions in many "social safety net" programs, reducing tax expenditures, or increasing revenues. The Senate Budget Committee is reportedly taking a serious look at the inflation-adjustment provisions as a potential source of federal savings.

The Administration Approach to Budgeting Grant Programs

The recommended funding for grant programs appears to be based on a framework that conforms with the following guidelines:

- Achieve substantial savings in key income maintenance and medical assistance programs through measures which include capping federal contributions, stricter eligibility standards, and tighter enforcement. This is the approach used for the Medicaid, AFDC, and nutrition programs, and it clearly differs from the hold-harmless treatment accorded direct federal "safety net" programs such as Medicare and Social Security. Federal involvement in Medicaid will be capped, and over $3.2 billion in outlay savings are planned for FY 1982 in such areas as AFDC, Medicaid, and various nutrition grant programs through these cost savings measures. By FY 1986, savings in these assistance programs are projected to reach over $9 billion.

- Reduce funding substantially or entirely for the remaining smaller narrow categorical programs, promising flexibility in return for reductions. Programs slated to be eliminated completely are those which provided planning assistance or seed grants (e.g., HUD 701, sea grant colleges), were just getting started (e.g., energy impact assistance, weatherization) or which struck the Administration as ineffective (e.g., activities of the Economic Development Administration and regional commissions). Established programs providing for narrow categories of education, health, and social services were proposed for consolidation into block grants. The major block grants currently proposed are:

  --Elementary and Secondary Education: Two block grants are proposed: one for state governments and another for local education authorties.

  --Social and Community Services: This proposal now includes the basic social services grants to states, a variety of smaller social service programs, legal services, and juvenile delinquency.

  --Health: The budget revisions contemplate two programs: one for health services and one for disease prevention.

  --Highways: A reduction in the number of categorical grants into fewer broad-based grants is being proposed for highway construction and improvement programs.

  --Hardship Assistance: This grant would include low income energy assistance and emergency assistance.

  --Puerto Rico: A block grant is proposed as a special approach to cutting the cost of income tested nutrition programs, particularly Food Stamps, in Puerto Rico.

--Other: The Administration is suggesting consolidation of Indian aid, employment and training, aging programs.

- Slow the pace of federally subsidized state and local construction activities. This is reflected in recommendations for highways, airports, wastewater treatment, and mass transit capital assistance. Combining community development block grants and urban development action grants at the funding level of CDBG alone has the same effect for these programs. While the Administration proposal to stretch out highway, water and wastewater projects will reduce budget outlays by over $16.2 billion from FY 1982-1986, it will also serve to increase the eventual costs of these capital projects by at least $2.5 billion due to inflation alone as based on the Administration's inflation projections. (See Page 44.) If the Administration's projections of 5% inflation or less beginning in 1984 are too optimistic, the estimated $2.5 billion loss of purchasing power will be greater.

  Inflation in the construction industry has risen at a much faster rate than general price levels during the period 1972-1980. As measured by the Consumer Price Index, general inflation grew by 97% in this period, but construction inflation as measured by the Commerce Composite Construction Index grew by 122%. Because inflation in construction exceeds general inflation, delayed projects require even more inflated purchasing power. In turn this increases real project costs.

State Budget Impact

The Administration has generally designed proposed federal cuts that can be "passed on" by state and local governments to program beneficiaries and need not be covered by additional state and local outlays, assuming that the Administration can deliver on its promises of flexibility and reduced federal mandates. Thus, states may have the option, with exceptions in such cases as Medicaid and highways, of avoiding added spending of their own general revenues to compensate for federal reductions. However, some of the proposed reductions in income security, in programs designed to support basic services provided by cities (such as sewage treatment and mass transit), in planning programs that now support state government workers, and in other programs addressing problems that are particularly pressing in a state may create pressure on states to pick up a portion of the contributions formerly made by the federal government.

In sum, the Administration has proposed a substantial cutback on the federal involvement in intergovernmental domestic programs in both the near and long term. Whether these cuts will require state and local governments to assume additional financial responsibilities hinges on several factors:

- the degree to which increased administrative flexibility offsets reduced funding levels, provided that the increased flexibility is forthcoming from the Congress;

- the assessment of state and local officials of the need to maintain highway, mass transit and other infrastructure improvements on their current schedules;

- the accuracy of the Administration's position that the "truly needy" will not be closed out of assistance programs because of tighter eligibility standards; and

- the realization of improved economic performance now projected by the Administration.

FEDERAL LOANS AND CREDIT PROGRAMS

The growth of the federal credit budget has come under both congressional and OMB scrutiny in recent years. These concerns are reflected in the March 10 budget proposals, which contemplate major reductions in the availability of federal credit assistance.

The central rationale for credit program reductions is a need to reduce federal government demands on the financial market and consequent federal intervention in the economy. Both the size and the functional scope of the credit budget would be pared back by the Reagan Administration to achieve reduced federal impact in the money market.

Four types of credit assistance programs make up the bulk of federal activity to facilitate non-federal borrowing:

- direct loans (including some called "insured");

- guarantees of private sector loans ("guaranteed or insured lending");

- lending by privately owned, federally sponsored or chartered enterprises; and

- income tax exemption of interest received on certain types of debt.

Most federal efforts provide credit to borrowers on more favorable terms than otherwise available, and some are aimed at borrowers for whom credit would not otherwise be available or financially feasible.

Direct loans and loan guarantees would be substantially reduced for both FY 1981 and FY 1982 under the March 10 proposals. For FY 1982, the aggregate availability of federal credit assistance would drop by $30.3 billion from the Carter budget figure of $148.9 billion to a level of $118.6 billion under the Reagan budget. Direct loans would be reduced by $2.6 billion and loan guarantee commitments would be cut by $27.7 billion. The reduction for FY 1981 would total $20 billion, with a $17.4 billion cut in loan guarantees and the remainder ($2.6 billion) in direct loans. (Note: some secondary guarantees and guarantees are held as direct loans and some direct loan assets are purchased by the Federal Financing Bank; thus figures are subject to adjustment.)

The Administration applied three broad criteria in targeting credit assistance programs for reduction--(1) "sound economic criteria" (recovery of allocable costs and elimination of subsidies that were designed to alleviate specific problems of economic deterioration, but have instead made economic problems worse by interfering with the workings of the marketplace); (2) reduction of subsidies to middle and upper income families; and (3) fiscal restraint on "programs that are in the national interest but cannot be accorded an urgent priority in light of the need to curtail the effects of large federal demands upon the Nation's financial markets."

Programs are proposed for reduction or termination for a variety of more specific reasons:

- Alcohol fuel loans would be eliminated because other incentives (e.g., decontrolled petroleum prices, federal excise tax exemption, 20% investment tax credit, and state tax credits) are thought to be sufficient.

- Farmers Home Administration (FmHA) low-income homeownership loans at subsidized interest rates would be cut back to reduce the federal impact on the credit market.

- Rural rental housing, soil and water conservation, and resource conservation and development loans would be reduced to eliminate "low priority" projects.

- Federal Housing Administration (FHA) loan guarantees (mortgage insurance) and Government National Mortgage Association (GNMA) commitments would be cut to reduce subsidies to middle and upper income families by focusing federal housing credit assistance only on those segments of the housing market that are not served by the private market.

Among the credit programs slated for elimination are:

- REA lending to electric and telephone cooperatives, some of which is converted to a guarantee program;

- FmHA business and industrial loan program;

- EDA loans and loan guarantees;

- National Consumer Cooperative Bank;

- GNMA tandem mortgage assistance;

- Student Loan Marketing Association access to federal financing; and

- HUD rehabilitation loan fund.

Programs proposed for reduction include:

- FmHA ownership and disaster loans;

- FmHA rural housing insurance;

- USDA storage facility loans;
- SBA lending and guarantees;
- Energy conservation and biomass and geothermal development;
- Export-Import Bank and P.L. 480 food export financing;
- FHA and GNMA mortgage assistance;
- College housing;
- Aircraft purchase loans, limiting loans to commuter airlines;
- Guarantees for merchant shipbuilding;
- Public housing;
- Foreign military sales;
- Veterans insurance programs; and
- District of Columbia capital projects.

The bulk of the dollar reductions would affect the housing industry. For FY 1981, the reduction would be $14.2 billion, and for FY 1982, the cut would be $18.0 billion.

Housing credit dominates the loan guarantee commitments granted by the federal government through the activities of the FHA, GNMA, the housing programs of the Veterans Administration, and HUD's subsidized low-rent housing programs. The Export-Import Bank, GNMA, and programs under the Farmers Home Administration dominate the direct loan segment of the federal credit budget with smaller, but important segments, devoted to student loans, international development and security assistance, and HUD housing programs.

Direct loans and loan guarantees in the housing area are generally acknowledged to promote the liquidity of housing funds and provide some margin of stability for the housing construction industry. Administration analysis indicates that reductions in GNMA and FHA commitments will continue to allow mortgage insurance on a demand basis because of currently reduced demand for mortgage credit and reductions in HUD low-income housing program levels. However, further squeezes on the availability of mortgage credit could additionally depress this already hard-hit sector of the economy.

The Administration proposals do not propose further curtailment of state and local access to tax-exempt financing and do not accept the proposals under the Carter budget to restrict the use of industrial development bonds or hospital bonds. Proposals to restrict or eliminate these bonds have been often expressed within the Congress, however, and could come under early consideration.

ADMINISTRATION RESPONSE TO STATE CONCERNS

On November 25, 1980, the National Conference of State Legislatures and the National Governors' Association adopted a joint policy statement calling for the restoration of balance in the federal system and outlining a number of actions that Congress and the Administration should take to achieve reform.

The responsiveness of the President's budget to the state federalism reform recommendations is described below:

- Consolidating federal grants--The Administration is proposing major block grants in eight areas: preventive health, health services, social services, emergency assistance, elderly social services and nutrition, elementary and secondary education, highways, and youth training. Programs for Indian tribes and Puerto Rico would also be consolidated. Taken together, the Administration's plans represent a noteworthy shift from narrow categoricals to more flexible block grants. While the Carter budget allocated 16.6% of grant-in-aid funds through block grants in FY 1982, President Reagan proposes to send more than twice that proportion--or about 38%--to state and local governments using the block grant concept. Total grants-in-aid, however, are reduced by some $13 billion under the Reagan proposal.

States have said that they will accept a 10% cut in federal funding in exchange for grant consolidation and simplification of administrative requirements. The Reagan proposal, however, reduces outlays for the major block grants 25% below current services. Funding cuts of this magnitude will lead to reductions in services, but the full impact of the spending proposals will be unclear until state governments can assess the degree to which they can offset the reductions with administrative efficiencies permitted by increased flexibility promised by the Administration.

- Developing a new relationship between states and the federal government that focuses on achieving results in programs of national concern, instead of prescribing explicit administrative requirements--The block grant initiatives supported by the President are evidence of his commitment to developing an improved partnership between the federal government and the states. In his February 18 budget proposals, the President noted:

> "...the Federal Government unnecessarily controls detailed state and local priorities. States and localities are not alien organizations inimicable to the best interest of the citizens they represent. They consist of those legislators and executives who cope with the real problems of the citizens they serve."

Available details on the block grant proposals indicate that the President plans to eliminate most of the performance standards that now apply to the categorical programs and that biennial audits would be used to assure appropriate expenditure of the funds.

- Limiting federal pre-emption of state laws and policies--A centerpiece of the President's long-term strategy is to place greater reliance on state and local governments to set policy and deliver services. Several mandates are, however, included in the budget proposals: (a) all states must adopt "workfare" adjuncts to their AFDC programs; (b) certain new eligibility determination procedures are specified for income-tested programs; and (c) a requirement that unemployment recipients accept minimum wage jobs after 13 weeks of benefits rather than relying on current state practices in this area.

- Sorting out roles and responsibilities among the three levels of government to recognize the primary federal policy and financial responsibility for national defense, income security, and a sound economy, and the primacy of state and local governments in such areas as education, law enforcement, and transportation--The President's budget proposals are responsive to this recommendation in decreasing federal support--and promising to decrease federal regulation of--law enforcement, education, and transportation. Overall, by FY 1986, grants to states and local governments are projected to buy only 55% of the services they purchased in FY 1980. However, on the other side of the trade-off, there is no welfare reform proposal or effort to change the current federal-state cost sharing in welfare, and Administration spokespersons have announced their intent to devolve this responsibility to states. In addition, the federal government would withdraw from financial responsibility in Medicaid for costs above a federally imposed cap, so that states would pay 100% of the incremental costs, rather than sharing those costs with the federal government as is now the case.

- Continuing the state share of revenue sharing--The President proposes no state revenue sharing payments in FY 1982.

On February 24, the National Governors' Association adopted a resolution on the FY 1982 budget which expressed support for the President's overall budget approach and based support for specific budget proposals on five principles. Two principles--those relating to the need for increased flexibility as a companion to budget cuts and to the sorting out of roles and responsibilities--have been discussed above. The responsiveness of the President's budget to the remaining criteria approved by the Governors is as follows:

- State governments must have sufficient lead time to adjust their own laws, budgets and administrative procedures to major changes in federal funding or policy--This concern, expressed by the Governors after release of preliminary versions of the budget cuts, does not appear to have caused any changes in the timing of proposed reductions. Judging from the summary documents, the Administration apparently intends to rescind or defer all FY 1981 money that was not obligated at the time the reduction decisions were made in such programs as the Title V commissions, the Economic Development Administration, and HUD 701 planning assistance. There also appears to be no adjustment in the construction programs (e.g., wastewater treatment) for multi-stage projects where only the first stages are secured by obligations made before the cuts were decided upon. However, the Administration has not submitted its deferral and rescission recommendations, and until they are submitted, the possibility remains that the Administration may provide for an orderly phase out.

A number of the Administration's recommendations affect FY 1981, which ends on September 30 of this year. If these recommendations are submitted as rescissions, congressional action would be required within forty-five days to make them effective, and by spring, state officials would have firm information on spending for the remainder of the federal fiscal year. If submitted as deferrals rather than rescissions, however, state officials will be less certain of the impact since deferral messages can be disapproved by Congress any time after they are transmitted.

Many of the cuts in the larger state programs will, if the President's recommendations are adopted, become effective in October, and thus will affect three quarters of FY 1982 for the 46 states on a July to June fiscal year. The budget for that fiscal year has been recommended by the Governor in practically every state, and in some, the Legislature has already enacted the budget and adjourned. Thus, state governments face difficult transition problems. These will be most acute in areas such as Medicaid where changes in state law would likely be needed to avoid unanticipated state outlays resulting from federal failure to fund expenditures above the cap. Similar problems may occur in the new block grants, where changes in state law and the development of new administrative systems may be necessary.

- Legislative and regulatory proposals to implement the President's plan must be developed in close consultation with state officials. This detailed consultation must begin immediately-- There has not yet been systematic consultation with state officials on key aspects of the proposals, including what programs are to be included in block grants, how funds are to be distributed under the various block grants, the shape of the block grant legislation, and what will be done about state flexibility in the Medicaid program. Nor is there yet evidence of systematic consultation on actions affecting the remaining categorical grant programs to improve the ability of state officials to use federal funds.

It is uncertain whether such consultations will take place between the submission of the budget proposals and the transmittal of legislative initiatives to Congress, scheduled for the end of this month.

- The federal budget reductions must not result in imposing an unfair and disproportionate burden upon the poor, the disadvantaged and the handicapped. Most major federal domestic social and health programs are designed to benefit poor and near-poor Americans. It is difficult to define these income groups with precision, let alone to determine the precise impact of the Administration's complex economic package on their well-being. According to the Census Bureau, 27.2 million--or one-third--of the households in this country are receiving non-cash assistance (e.g., Medicare, food stamps or housing aid) from the government.

If only the President's spending cuts are considered--including over $6 billion in outlay savings in income tested housing, nutrition, and medical programs--it appears that the income group that has the most to lose in relation to the program benefits it now receives are the near-poor--those who qualify for some programs now (e.g., subsidized housing, food stamps, higher education grants and loans) but would lose those entitlements under the Reagan proposals. That group would also probably be adversely affected by reductions in social service spending, as state decision-makers might also react to program cuts by concentrating assistance to those with very low incomes. However, this projection does not take into account the benefits to the near-poor of lower taxes, increased employment, and lower inflation rates that are assumed in the Administration's economic package.

Some indication of the impact that the budget is calculated to have on program recipients is provided by the following:

--400,000 households would lose eligibility for food stamp benefits, according to the Department of Agriculture;

--400,000 families would no longer be eligible for AFDC payments, and another 260,000 families would receive reduced benefits, according to the Department of Health and Human Services;

--nearly 1 million job seekers will lose their unemployment insurance benefits or receive reduced payments, according to the Labor Department;

--1.1 million jobs would be lost in such programs as CETA and highway construction, according to an AFL-CIO study. (Administration officials assume that its package would create 13 million new jobs over the next four years, three million more than would be created without implementation of the economic plan.)

- Federal budget decisions should not shift costs to state and local taxpayers-- In general, the Administration has avoided cutting programs where state or local taxpayers must assume financial responsibility for the support that is withdrawn by the federal government. Two major potential exceptions are Medicaid and highways as discussed elsewhere in this volume. Even in those cases, the Administration is promising flexibility to state and local administrators.

The National Conference of State Legislatures will meet on April 8-10 and will set budget policy for FY 1982 at that time.

CONGRESSIONAL OUTLOOK

Responding to what it perceives to be strong public support for reduced federal spending and reformed federal programs, Congress appears ready to adopt unprecedented spending cuts beginning in FY 1981. Predictions on the success of the President's plan in Congress range from 90%--Majority Leader Howard Baker's (R-Tenn) guess--to House Majority Leader Jim Wright's (D-Texas) more skeptical 60%-70%. However, a consensus has not yet developed over the exact nature of the spending reductions, the components of the tax package, and the process for reaching timely decisions.

Spending Proposals

In the Senate, where a Republican majority makes prospects for approval of the President's economic recovery plan more likely, erosion of the President's proposals has already begun. On March 9, the Labor and Human Resources Committee endorsed spending cuts in education programs of 12%, not 25% as the President has proposed. The Committee also departed from the President's package on low income energy assistance, legal services, black lung benefits, and programs for handicapped persons. However, the Committee's willingness to recommend $10 billion in reductions from Carter budget levels is strong evidence of Senate determination to achieve substantial savings. Senate Budget Committee chairman Pete Domenici (R-NM) reportedly plans to work toward Senate adoption of the President's plan intact.

House Budget Committee Chairman James Jones (D-Okla) has said that the House could be expected to go along with a minimum of $25-$30 billion in spending reductions. His Committee has established nine task forces and is working to develop its own list of spending reductions. This list is likely to differ substantially from the President's package. The greater the divergence between the House and Senate budget reduction decisions, the more difficult it will be to assure passage of authorizing and appropriation legislation needed to implement the reductions.

Announcements by the congressional leadership on the timetable and procedures for consideration of the President's proposals have focused on the spending and tax packages. No mention has been made of a strategy for achieving the flexibility states have said is vital if they are to administer reduced programs effectively. In fact, senators and congressmen who met with Governors on February 24 expressed skepticism about the prospects of achieving major reforms--including adoption of block grant legislation--this year. Adoption of spending reductions unaccompanied by flexibility could create severe problems for state governments and persons dependent on federal programs they administer.

Revenue Proposals

Although there is broad agreement that tax reductions should be enacted, the lack of consensus about what should be included in the tax bill--particularly on the provisions dealing with personal income taxes--is perhaps even more pronounced than over spending reductions. The Administration hopes to achieve prompt congressional approval of legislation introduced on March 10 (S. 683 and H.R. 2400) providing for a 10% reduction in personal income taxes in each of the next three years and major modifications in the method for computing corporate depreciation deductions.

In the House, which must act first on revenue measures, there is considerable interest in a number of options for revising the President's personal income tax proposals, including retargeting benefits to middle- and low-income taxpayers, enacting one year rather than three year reductions, providing relief from rising social security taxes, and modifying the "marriage penalty." In the Senate, the Finance Committee can be expected to review a business and individual tax cut bill it approved last year (H.R. 5829). That proposal was less expensive overall and more heavily weighted toward businesses and low- and middle- income households than the Reagan bill.

Budget Process

Although both the House and the Senate have agreed to accelerate consideration of spending and tax proposals, the timetable and procedures they are likely to use are not identical and therefore may lead to complicated House-Senate conferences.

In the Senate, the Budget Committee plans to take swift action, through the reconciliation process, on the President's spending reductions. The Committee schedule calls for work to begin during the week of March 16 to determine what instructions should be drafted to guide authorizing and appropriations committees in achieving savings. Action on the FY 1982 first budget resolution--in which revenue and defense decisions will be the focus--would be delayed until April, with final action expected by the May 15 deadline set in the Congressional Budget Act.

For its part, the House plans to take up the first budget resolution by early April, after the Committee's task forces have completed their hearings. Reconciliation instructions will be attached to the resolution. The House plans to move on a faster track to take up the rescission and deferral proposals the President will be transmitting to Congress within the next week. The rescission/deferral package, which reportedly will contain 116 separate items, is the President's proposal for revising appropriations decisions already made by Congress for individual programs.

The leaders of both Houses are predicting that action will be completed on the President's proposals before the deadline set by the Congressional Budget Act. House Speaker Tip O'Neill (D-Mass) and Republican Leader Robert Michel (R-Ill) have announced a schedule that calls for clearance of budget and revenue measures by the summer recess, now scheduled to begin August 3. The Senate and the House have agreed to finish action on the spending reductions by July 15, and House approval of the tax measure will be delayed until the spending reductions have been enacted.

The importance to the Administration of prompt congressional approval of the economic recovery plan is indicated by the following excerpt from an internal memorandum written by Budget Director David Stockman and published in the Washington Post on December 14:

> "If bold policies are not swiftly, deftly and courageously implemented in the first six months, Washington will quickly become engulfed in political disorder commensurate with the surrounding economic disarray."

By May 15, a better assessment of the outlook for the President's revenue and spending proposals will be possible. At that time, it will be clear whether:

- Congress is disposed to approve the President's plans intact or to engage in detailed debates. (A bellweather could be the depreciation tax proposal on which there is substantial agreement. Prolonged debate and negotiation would cloud the outlook for more controversial provisions.)

- Congress has adopted the President's package of rescissions and deferrals. (The forty-five day period within which Congress must act to approve rescissions will have expired by May 15.)

- Congress has adhered to its budget schedule for completion of the FY 1982 first concurrent budget resolution. (Failure to do so could spell trouble for the Administration's strategy for achieving approval of the plan during this session of Congress.)

Program Analysis

AGRICULTURE

New Budget Proposals

- Reduction of the commodity price support program by $100 million in FY 1981 and $200 million in FY 1982.
- Phaseout of the storage facility loan program by FY 1986.
- Establishment of user fees to finance federal costs of grain inspection and weighing.
- Increase of funding for agricultural research and extension activities by $13 million.

Major Programs Affected by President Reagan's Budget Proposals

- Commodity price support programs would be reduced by charging interest rates on all loans at least equal to the Treasury cost of borrowing and eliminating the waiver of first-year interest charges provided participants in the farmer-held grain reserves. The two actions will reduce outlays by $100 million in 1981 and by $200 million in 1982.
- Dairy Price Support program would be reformed by eliminating the mandated increase in dairy price supports due April 1, 1981 (legislation has been submitted). In addition the Administration plans to submit legislation aiming for long-term reforms that would reduce production of surplus dairy products, lower prices and increase the consumption of dairy products; and reduce federal government purchases of excess milk, butter and cheese. The February 18 message estimated reductions in spending of $138 million in FY 1981, $1.1 billion in FY 1982, and $2.7 billion in FY 1986.
- The Administration proposes to phase out the storage facility loan program by 1986, reducing outlays by $25 million in 1981 and $100 million in 1982. They maintain that adequate storage capacity exists to handle both present and future crop production.
- The Administration will propose legislation which would institute user charges to recover the federal costs for supervising grain inspection and weighing activities. Annual savings of $25 million would occur beginning in 1982. An additional $27 million would be saved by establishing user fees for tobacco grading and cotton classing. Funding for agricultural and research extension would be increased by $13 million in 1982 in an effort to increase farm productivity.

- Rural and agricultural development programs would be reduced by:

  --$187 million in 1981 and $400 million in 1982 for Rural Electrification Administration (REA) direct loan obligations, but a $100 million increase in 1982 for REA loan guarantee commitments to replace REA direct 5% loans to generation and transmission cooperatives. The FFB will no longer provide direct lending with REA guarantees to electric generation and transmission cooperatives and to telephone companies and cooperatives.

  --$89 million in 1981 and $2,650 million in 1982 in direct loan obligations for the agricultural credit insurance fund in the Farmers Home Administration (FmHA). Decreases are primarily for farm ownership and emergency disaster loans. Loan guarantee commitments for this program would be increased by $100 million. The reductions in direct loans result in decreases in loan guarantee commitments of $76 million in 1981 and $1,139 million in 1982 for sales of certificates of beneficial ownership to the Federal Financing Bank (FFB).

  --Budget proposals for other Farmers Home Administration loan programs are detailed in the Community and Economic Development section.

- The Administration proposes the termination of the alcohol fuels and biomass programs administered by the Departments of Agriculture and Energy. Budget authority not yet obligated under either program (estimated at $1.2 billion) is proposed for rescission in FY 1981. This would result in outlay savings of $100 million in FY 1981 and FY 1982.

COMMUNITY AND ECONOMIC DEVELOPMENT

New Budget Proposals

- A 50,000 unit reduction in Section 8 assisted housing for FY 1982 from announced February levels.

- The elimination or substantial reduction in loans and loan guarantees by the Small Business Administration (SBA), the Farmers Home Administration (FmHA), the Federal Housing Administration (FHA), and the Government National Mortgage Association (GNMA).

It is becoming increasingly clear with the additional reductions announced March 10 that Federal government assistance to state and local governments in the area of economic development will be confined to the Community Block Grant (CDBG) program. CDBG is the only remaining sub-national development assistance program. Although fiscally intact, the program will now be expected to support the activities previously funded under UDAG Sections 312 and 701, neighborhood self-help and the weatherization programs transferred from the Department of Energy as well as the economic development functions currently funded under Title V, the Appalachian Regional Commission, and the Economic Development Administration (EDA). Since states do not currently receive CDBG funds, this would virtually eliminate federal assistance for state development activities.

The March 10 budget also contains severe reductions in both short and long-term commitments to low income housing. FY 1982 reductions in Section 8 assisted housing would drop available units from the 260,000 proposed in the January Carter budget to 175,000 units. The FY 1981 level has also been reduced to 210,000 units. Also slated for elimination in FY 1982 are the Indian Housing and GNMA targeted tandem programs. The elimination of GNMA tandem financing will shift these units from subsidized financing to market rates significantly raising per unit costs. Per unit costs are also based on projected change in the Consumer Price Index of 8.3% and projected interest rates of 9% for calendar year 1982. Failure to bring inflation and interest rates down to these levels could also affect the ability to produce the projected number of units on the available funds.

The Administration is proposing to fold the UDAG program into CDBG at an unspecified level beginning in FY 1982, but retain the competitive feature of the program. UDAG is not expected to remain as a separate function beyond FY 1983. The combined CDBG/UDAG program has been reduced by $469 million to $4.1 billion for FY 1982. The March 10 proposals also call for streamlining of the UDAG program with details to come later. Section 312 rehabilitation loans, Section 701 comprehensive planning assistance, and neighborhood self-help programs remain slated for elimination.

The Administration has also proposed withdrawing several FY 1981 supplemental requests including public housing operating subsidies designed to cover increased energy costs ($100 million) and $148.5 million in Section 236 rent supplement funds. Fair housing and Section 202 elderly housing funds were not reduced.

Substantial reductions were also revealed in the housing and economic development credit budgets with reductions in the FHA mortgage insurance program, GNMA guarantee program, and FmHA rural housing insurance. Details on the amounts are provided below. The February proposals to eliminate the EDA, Title V Regional Commissions, and the Appalachian Regional Commission have been followed by the proposed elimination of the business and industrial loan program under FmHA and major reductions in both FmHA and SBA direct loans for rural development and disaster assistance. The Title V regional commission program was slated for elimination in the Carter January budget.

Highlights of March 10 proposals (February 18 reductions outlined in joint memo of February 20):

- Housing:

  --Section 8 assisted housing budget authority for FY 1981 reduced from $30.2 billion under January budget to $25.1 billion, FY 1982 budget authority reduced to $19.8 billion from the January level of $29.7 billion. State housing finance agency set-aside reduced from 30,000 units to 20,000 units. Rent to income ratio raised from 25% to 30%. Mix of existing housing to new construction changed from 50-50 to 55-45.

  --Public housing utility cost supplemental for FY 1981 withdrawn; funds ($100 million) will be sought from home energy assistance program in Department of Health and Human Services.

  --Indian housing program eliminated in FY 1982. FY 1981 level of 5,000 units.

--GNMA tandem program eliminated. $3.6 billion set aside to honor commitments for units in the "pipeline."

--GNMA guarantees reduced $8 billion in each of FY 1981 and FY 1982 from levels of $53 billion in FY 1981 and $72 billion in FY 1982.

--FHA mortgage assistance program loan guarantee commitments reduced $4.8 billion in FY 1981 and $9 billion in FY 1982 from January levels of $34.1 billion in FY 1981 and $44 billion in FY 1982.

- Farmers Home Administration:

  --Rural Development Insurance Fund reduced in three areas. Business and industrial loans to be phased out by the end of FY 1982. A $500 million reduction in loan guarantees scheduled for FY 1982 would effectively eliminate the program. $160 million reduction in FY 1981 water and sewer direct loans from the $750 million proposed in January. Reagan proposes a $275 million reduction from Carter's $575 million FY 1982 level and he follows Carter's approach of holding these funds for submission as a package with legislation designed to raise program interest rates. $130 million reduction in FY 1982 community facilities direct loans also scheduled equalling one-half of the January level.

  --Rural Housing Insurance Fund loan guarantees reduced by $274 million from FY 1981 level of $504 million budget authority. $517 million of $654 million budget authority FY 1982 loan guarantees is also out.

- Economic Development Administration: Basic EDA programs eliminated. FY 1981 reductions in direct loan obligations of $50 million from original $116 million level. Direct loans totally eliminated in FY 1982 ($116 million). FY 1981 loan guarantees reduced $262 million of $500 million. FY 1982 loan guarantees reduced $425 million of $758 million.

- Small Business Administration:

  --$45 million of $378 million in FY 1981 direct loans and $116 million of $351 million in FY 1982 direct loans will be eliminated.

  --$990 million of $4.2 billion in the FY 1981 loan guarantee commitments and $1.5 billion of $4.2 billion in FY 1982 loan guarantee commitments will be eliminated.

  --Disaster loans will be reduced by $780 million of the $2.1 billion available in FY 1981 and by $50 million of the $524 million proposed in the FY 1982 Carter budget.

EDUCATION

New Budget Proposals

- An additional 5% rescission of FY 1981 funds for programs to be consolidated;
- New restrictions on the Student Loan Marketing Association;
- Reform of the Guaranteed Student Loan Program as proposed by the Carter January budget; and
- Removal of Bilingual Education from the local block grant proposal funded at the same reduced level.

Because most federal education programs are forward-funded by a year, the Department of Education's FY 1981 continuing resolution represents the funding levels for the 1981-82 school year. The Reagan Administration's education budget proposals under the Economic Recovery Plan begin by recommending rescissions to the continuing resolution totalling $1.9 billion. The major reform proposed by the Administration for FY 1982 (school year 1982-83) is the creation of elementary-secondary block grants to states and local school districts, comprised of some 50 current categorical programs. The FY 1982 base budget for the block grants is 25% below the FY 1981 continuing resolution for the programs being consolidated. This represents a further reduction of 5% beyond that proposed February 18. Post-secondary student loan reforms are proposed, including the reforms announced by Carter's January budget.

Major Programs Affected by President Reagan's Budget Proposals

- FY 1981 Funding Rescissions: The President proposes to rescind $1.9 billion from the Department of Education's continuing resolution for FY 1981. The proposals include:

  --All Title I (ESEA) programs would be reduced by $878.7 million (including basic grants to local districts--$706.2 million; basic grants to states --$122.7 million; and concentration grants--$35.5 million).

  --Programs for education of the handicapped and gifted and talented would be reduced by $256.5 million including state assistance of $236 million.

  --Emergency school aid would be reduced by $59.3 million.

  --Impact Aid would be reduced by $66.5 million (to fund 90 percent of the formula entitlement).

  --Post-secondary Guaranteed Student Loans would be reduced by $103 million by increasing family contribution expectations and eliminating the special lenders allowance for the parent loan program, in-school interest subsidy, and the administrative allowance for institutions.

- Consolidation of "over 50" individual elementary and secondary programs into two block grants:

  --A block grant totalling $3.6 billion to local school districts would consolidate approximately 10 existing programs to provide services to economically disadvantaged and handicapped students, functionally illiterate adults, and children in schools undergoing desegregation. (The amount of $4.5 billion used in the February 18 proposals was based on authorization levels for these programs in the FY 1981 continuing resolution.) Specifically, this would include the current Title I grants to local education agencies (LEAs) along with migrant aid, concentration grants, emergency school aid, education for the handicapped (including the present state grant program which is currently authorized at $922 million, but would be reduced to $691.5 million in the revised FY 1981 budget) and basic skills improvement. The present categorical programs would be reduced by $1.4 billion (25 percent) from the current level of the 1981 continuing resolution, but increased by $227 million (6.6 percent) in the 1982 budget. The budget projects a 5 percent annual increase through 1986.

--A block grant to state education agencies totalling $714.6 million would consolidate "about 35" existing programs directed at three purposes: (1) elementary and secondary school improvement at the local level, (2) services to disadvantaged, handicapped, neglected, and delinquent children in state institutions, and (3) improvement in state educational agency administration and management. (Again, the February 18 $900 million figure was the approximate current authorization level for these programs.) States would be given more flexibility in deciding how to use their funds for these purposes. The programs being consolidated into the state block grant would be reduced in 1981 by $247 million (25 percent) from the continuing resolution level, but increased in the proposed FY 1982 budget by $69 million (9.5 percent). The budget projects a 5 percent annual increase through 1986.

- Reform of post-secondary student aid programs to focus on students who need assistance for meeting college costs. This would effectively eliminate funding for the Middle Income Student Assistance Act. Major reforms are proposed in the Pell (formerly BEOG) Grants and the Guaranteed Student Loan programs. Funding for other large campus-based student assistance programs is either maintained or increased. National Direct Student Loans would be increased from $186 million to $286 million.

  --Pell Grant reforms would provide for maximum awards of $1,750 for school year 1981-82 and $1,800 in school year 1982-83. Families would be required to increase their contribution toward educational costs from the current 14 percent to 20 percent and students would be required to contribute $750 in self-help aid. Allowable educational cost components would be tightened, and administrative allowances for institutions would be eliminated.

  --Guaranteed Student Loan program reforms would be effective July 1, 1981 and would be the same as described previously.

- Ending Student Loan Marketing Association (Sallie Mae) access to low-cost Federal Financing Bank to facilitate its entry into the private capital markets and allowing for a transition period ending September 30, 1982.

- Limiting payments under Impact Aid by further reducing the program by $322.5 million in 1982 to concentrate funds in "Super A" districts where 20 percent or more of the enrollment is "A" children (families who live and work on federal property). No payments for "B" children (families who live or work on federal property) would be made.

- Vocational education programs would be reduced by 25 percent ($195 million) in 1981, but increased again by $39 million in 1982.

- The Institute for Museum Services would be eliminated in 1982.

- Funds for research and development in the National Institute of Education would be reduced from $74 million in 1981 to $61 million in 1982.

Other notable changes include a 25 percent reduction in funds for public libraries; a 25 percent reduction in funds for bilingual education programs (not included in the block grant consolidation proposal) with subsequent 1982 increase of 5 percent over the revised 1981 level; transferring the vocational rehabilitation program to the Department of Health and Human Services in 1982; and further reductions in authorized employment levels in the Department of Education by 5 percent in 1981 and 8 percent in 1982.

EMPLOYMENT AND TRAINING

New Budget Proposals

New spending decisions announced on March 10 include:

- Consolidation of Youth Employment Demonstration Program (YEDPA) activities now under CETA Title IV-A into the general purpose training grants to prime sponsors under Title II-B and C, with a net reduction in comparable budget authority of $856 million;

- Withdrawal of the Carter's youth initiatives add-on, for a savings of $250 million;

- Elimination of CETA Title III funding on Special National Programs, saving $150 million;

- Phasing out the Welfare Reform Demonstration Projects in FY 1982, saving $174 million in budget authority in FY 1982 and deferring $46 million from FY 1981 funding;

- Elimination of the Positive Adjustment Assistance Demonstration Program for dislocated workers proposed by the Carter Administration, saving $50 million;

- Providing $245 million for UI benefits for laid-off public service employment participants;

- Holding funding for the Work Incentive Program (WIN) at current levels, eliminating the Carter-proposed $20 million cost-of-living increase;

- Requiring 20 weeks of work for UI recipients to receive extended benefits;

- Reducing grant outlays to states for the Employment Service by $150 million;

- Eliminating CETA funding for Disabled Veterans Outreach Program staff, requiring that these services be provided from the base Employment Service staff;

- Deferring $58 million in FY 1981 in Young Adult Conservation Corps funding and $607 million in Title II-D public service employment funding; and

- Requesting a rescission of FY 1981 funds for Title VI public service employment of $234 million.

MAJOR PROGRAMS AFFECTED BY PRESIDENT REAGAN'S BUDGET PROPOSALS

Among the proposals in the President's budget of most interest to states are the following:

- Comprehensive Employment and Training Programs: The combined effect of eliminating public service employment (PSE) programs (Titles II-D and VI of CETA) and the further cutbacks in youth, welfare reform demonstrations, positive adjustment assistance demonstrations, and special national programs amounts to a 47 % cut in funds available for state and local prime sponsors (reducing outlays from $8.8 billion in FY 1980 to $4.7 billion in FY 1982). The proportionate loss to states for the operation of Balance of State PSE and youth programs will likewise amount to an approximate cutback of 47 percent from FY 1980 if the Reagan budget is approved. In addition, the elimination of funding for the Youth Employment Demonstration Program will eliminate the Governors' five percent set-asides for special statewide youth services at a loss of $44 million . Furthermore, the phaseout of the Young Adult Conservation Corps (YACC) proposed on February 18 will eliminate the 30 percent set-aside of funds for state and local YACC programs (a loss of $60 million). The request for $245 million to pay for UI to former PSE workers will be helpful, and represents the Department of Labor's best guess as to the total UI liability. The budget authority is requested for fiscal 1981, but department spokespersons indicate that it will be carried forward to out-years as needed.

- Unemployment Insurance: Most of the unemployment insurance (UI) amendments affect the extended benefits (EB) program (See February 20 NGA/NCSL analysis, page 7) for which the federal unemployment tax (FUTA) pays half. The notable exception is the amendment proposed in the February 18 package that would require UI recipients to accept minimum wage jobs after 13 weeks of benefits. Since eligibility and duration of benefits under the regular (state) programs are determined by state law, this "federal standard" would be imposed on state programs. This proposal and the new requirement for 20 weeks of work for EB show no savings until 1983 because states would have to enact conforming legislation.

- Employment Service: The combined effect of the Employment Service (ES) cut, the stand-still WIN funding, and the required absorption of disabled veterans outreach staff into the basic ES staff level will seriously reduce the capacity of the state employment security agencies to carry out their various mandates. The ES reduction would eliminate over 5000 staff years from the base of 30,000 and, combined with the absorption of the disabled veterans specialists, would reduce the present staffing level by nearly 9000 staff years. A cut of this magnitude calls into question the savings estimated in some other Administration proposals, because the Employment Service will be hard pressed to find the minimum wage jobs for UI recipients and other groups mandated for work search (food stamp recipients, etc.) An immediate effect would be the closing of some of the smaller local ES offices.

ENERGY AND THE ENVIRONMENT

New Budget Proposals

New spending decisions announced on March 10 include:

- A Superfund authorization of $200 million for FY 1982; a supplemental request of $68 million for FY 1981 will also be submitted;
- An increase of $11.7 million for State Hazardous Waste Grants (Subtitle C) to a total of $41.7 million in 1982. Subtitle D solid waste grants will be eliminated;
- Continuation of State Air Pollution Grants at the FY 1981 level of $87.7 million;
- Elimination of Coastal Zone Management Grants and Coastal Energy Impact Program (CEIP) grants in FY 1982.
- Elimination of the Water Resources Council (WRC) in FY 1982, rescission of $5 million appropriated for FY 1981 for state comprehensive water resources management (Title III) and elimination of grants to states and river basin commissions;
- Rescission of $700 million in unobligated FY 1980 wastewater treatment grants, along with a $1 billion rescission in FY 1981 funds. Legislation will be proposed to reform the programs; and
- An increase of $5 million for state water quality management grants over the amount proposed in the February 18 budget. The new funding level of $51 million for FY 1982 maintains the section 106 grants at current levels.

Impact of the President's Budget on the States

- Energy: In the federal budget cuts being proposed by the Reagan Administration, state programs in the energy field are marked for severe curtailment or elimination, both in the current fiscal year and in FY 1982. While such proposals must be approved by Congress, the vigor with which the Administration is promoting fiscal austerity and the expectation that Congress will not defend many of the energy programs ticketed for termination bode ill for state-oriented energy programs.

  The Reagan budget calls for a rapid phaseout of support for programs under the Emergency Energy Conservation Act (EECA) in both FY 1981 and 1982. It also targets for elimination all basic support for state energy offices in FY 1982 under the State Energy Conservation Program (SECP) and the Energy Extension Service (EES). Federal funding for the Low Income Weatherization program will be included in an emergency assistance block grant described in the Human Resources section of this analysis. Low Income Energy Assistance Program funding will be reduced by 25% in FY 1982 and combined with the emergency cash assistance program in a Department of Health and Human Services block grant. The $5.3 billion synthetic fuels program will be transferred from the Department of Energy to the new Synthetic Fuels Corporation. In addition, funding for Inland Energy Impact Assistance and the Coastal Energy Impact Assistance Program (CEIP) are eliminated for both FY 1981 and 1982.

  No new funding for the section 601 Energy Impact Assistance program was included in the budget material released March 10. The Administration still plans to seek a rescission of $52 million of the $62 million appropriated for FY 1981, and to seek no funds for the program in FY 1982. Twenty-two states have participated in the Section 601 program, which provides money for planning and land acquisition in areas adversely affected by rapid energy development. The amount of appropriated funds which can be used for planning is limited by law to 10%, so both the planning and land acquisition activities will continue in FY 1981.

  Budget authority for DOE's commercial nuclear waste program is increased from $247 million for FY 1981 to $299 million for FY 1982, a $42 million increase over the Carter FY 1982 budget. The program involves R&D funding for high-level waste repositories, including a small-scale demonstration facility by 1990. In addition, the budget increases emphasis on low-level waste R&D and provides funding for remedial activities at 1) uranium mill tailing sites, 2) the West Valley, NY site and 3) various federal facilities. The Reagan budget retains $7 million FY 1982 budget authority for interim fuel storage (down from $23 million in FY 1981), but is refocused to concentrate on the development of alternative spent fuel storage technologies for at-reactor, rather than away-from-reactor, storage. Funding for the acquisition of any away-from-reactor storage facility has also been eliminated.

- Environment: The Reagan budget offers substantial support to states for addressing the problem of hazardous waste both through funding for Superfund and the RCRA Subtitle C program. Superfund receives not only an authorization of $200 million for FY 1982 but also a supplemental request for FY 1981. EPA has indicated that states will be heavily involved in implementing the program. Though some cuts will occur in the air pollution exhaust emission contract program for FY 1982 ($2.2 million), air pollution grants to state and local governments will remain at their FY 1981 level of $87.7 million. Water programs represent the major area where the EPA budget has been reduced.

  The combined Reagan budget proposals for water programs would have a drastic near-term effecton state water programs. The rescission of FY 1980 wastewater treatment funds (section 201) in addition to the $1 billion rescission of FY 1981 funds and no requested appropriation for FY 1982, will stop several states' programs immediately and severely constrain up to 17 state programs in 1981. No funding is requested in FY 1982 for state management of the program (section 205(g)). Legislative proposals being prepared as reforms to the wastewater treatment program appear to limit the scope of the program to the larger cities and SMSAs with major health and environmental problems. This would not allow flexibility for individual states to address their priority water quality-related problems.

  The $5 million rescission of FY 1981 Water Resource Council state water management grants will immediately affect staffing in at least 10-12 states. Some of the smaller states are dependent upon this funding for their state water resource management programs.

  States have indicated a willingness to take their fair share of the budget cuts in the water programs area, but there is no transition period in the Reagan budget or opportunity for the states to find funding alternatives through their state legislatures, bonds, or taxes.

  This material is a summary analysis of the effect of the budget proposals of the Reagan Administration. New information appearing in the FY 1982 Budget Revision, issued March 10, 1981, has been incorporated. For a more detailed analysis of the impact of the Administration budget on states, see NGA/NCSL analysis The Economic Recovery Plan: Impact on the States, February 20, 1981.

GENERAL GOVERNMENT/FISCAL AFFAIRS

New Budget Proposals

- No funding for the state share of revenue sharing.
- Restoration of payments-in-lieu of taxes program.
- Withdrawal of Carter's proposed tax credit to state and local governments to offset a portion of the January 1, 1981 increase in social security payroll taxes.
- A reduction in new federal civilian employment of 18,900 positions in 1981 and 43,100 positions in 1982.

Major Programs Affected by President Reagan's Budget Proposals

- The Administration has adopted the Carter proposal to end the state share of general revenue sharing. The Administration's FY 1982 budget proposals do continue the local share with funding for local payments at the current level of $4.6 billion.
- Payments-in-lieu of taxes, a program that provides payments to local governments to offset tax losses absorbed by having federally owned (i.e. tax-exempt) property in their jurisdictions. has been restored by the Administration's budget proposals. The program targeted for elimination in the Carter January budget, has been restored to an FY 1982 level of $45 million.
- The Administration's budget proposal eliminates $495 million in FY 1982 for tax credit payments that were to be made to state and local governments to offset a portion of the increase in social security payroll taxes that became effective January 1, 1981. The withdrawal also negates the tax credit available to non-profit organizations which was a part of the Carter proposal.
- In the Administration's proposed budget, new civilian personnel ceilings for 1981 and 1982 were developed for each agency. Employment in non-defense agencies would be reduced by 32,900 positions in 1981 and by 63,100 positions in 1982 from the January budget estimates. As part of the Administration's proposed increases for defense, civilian employment for the Department of Defense would increase by 14,000 positions in 1981 and by 20,000 in 1982. The net decrease in new civilian employment would be 18,900 positions in 1981 and 43,100 in 1982 from the January budget estimates.

HUMAN RESOURCES

NEW BUDGET PROPOSALS:

New spending decisions announced March 10 by the President include:

- Additional savings of $270 million in Medicaid through the accelerated collection of disallowed state claims from prior years and retention of the "interim" Medicaid cap proposed in the February 18 package;
- Details of four block grants proposed in the areas of preventive health, health services, social services and emergency assistance;
- Additional savings of $480 million proposed in AFDC;
- Additional cuts in food stamps and child nutrition programs and a new $343 million cut in WIC;
- Deeper cuts in health planning and the training of health professionals; and
- Details of a consolidation of social services and nutrition programs for the elderly.

MAJOR PROGRAMS AFFECTED BY PRESIDENT REAGAN'S BUDGET PROPOSALS

Among the proposals in the President's budget of most interest to states are the following:

- Medicaid: No change was made in the February 18 plan in which the Administration proposes the institution of an "interim" cap--of unknown duration--on federal matching payments to states. The Administration promises to propose a major increase in states' flexibility to run the program, but the specific types of flexibility are not outlined in the budget material.

  Federal payments would be capped at $16.3 billion in FY 1981 ($100 million below current estimates) and allowed to rise 5% to $17.2 billion in FY 1982 rather than the 10% or $18.2 billion now projected. Thereafter federal payments would be permitted only to keep pace with inflation. It should be noted that the $17.2 billion cap proposed for FY 1982 may actually be much tighter than it first appears because the Medicaid budget has often had to be supplemented. The current appropriation of $16.4 billion is based on state estimates that were made when hospital costs were rising much less rapidly than the current rate of 18% and when few anticipated the large case load growth many states have experienced. The current rate of program costs for FY 1981 may, in fact, exceed the cap proposed for FY 1982.

  If past program experience of 15% per year increases continues, federal payments under the cap would be reduced by $2 billion in FY 1982 and by over $11 billion in FY 1986. Any such reductions in federal aid would have to be absorbed by the states in the following ways: (1) significantly reducing the cost of care purchased by the program; (2) providing additional state revenues; or (3) reducing Medicaid services or eligibility.

Under the proposed cap, each state would maintain its current relative share of federal aid, which translates to a 5% cap for every state. The proposed cap will have widely different implications for individual states, depending on economic conditions, current service coverage and eligibility policies, and the rate of increase in local medical care costs. States that experience case load growth due to economic circumstances beyond their control and states that have already exhausted many cost containment options such as reducing reimbursement rates, eligibility levels, and service coverage would be hit particularly hard. Even with substantial latitude to adopt more cost-effective policies, many states would find it virtually impossible to constrain cost increases to 5% when private sector costs for medical care are continuing to rise at three times that rate.

After the "interim" cap takes effect, the Administration has said it will propose legislation to deal with the Medicaid cost problem on a permanent basis by means of greater reliance on marketplace competition in the health care sector.

In addition to the proposed cap, the budget projects a federal savings of $270 million resulting from legislation that would allow accelerated collection of disallowed state Medicaid expenditures for all prior years and immediate collection of all future disallowances as they occur. States strongly opposed a similar provision last year and obtained congressional approval of a compromise proposal protecting the essential interests of both the federal and state governments. This provision allows states the option to retain disallowed funds until the appeals process is completed, with the stipulation that they return the funds with interest if the federal position eventually is upheld. The period of time for which states are interest-liable is limited to twelve months in FY 1981 and to six months in FY 1982 and thereafter. This provides some assurance that a state's budget will not be devastated by an unwarranted denial and also assures that states are not unduly penalized for federal delays in the federal appeals process.

- Health and Social Service Block Grants: The Administration proposes the consolidation of over 40 existing categorical health and social service programs into four block grants: health services, preventive health, social services, and energy and emergency assistance. The four block grants would be designed to give states "maximum flexibility to address needs as assessed by states and localities," and funds would be allocated to states "in proportion to the estimated allocation of existing categorical programs." Total FY 1982 funding for the programs would be reduced by 25% below the current service estimates for FY 1981 for the existing categoricals.

The Health services block grant would replace the following programs: primary health care centers and demonstrations; black lung services; migrant health; home health services; maternal and child health; hemophilia; sudden infant death syndrome; emergency medical services; mental health services; drug abuse; and alcoholism. The "only limitations" would be that "funds may not be used for cash payments, for construction or for the purchase of land and facilities." No performance standards would apply except for immunizing children against preventable diseases. FY 1982 budget authority is set at $1.1 billion, some $400 million (or 26%) less than the FY 1981 current services level of $1.5 billion.

The preventive health block grant would replace the following programs: high blood pressure control; health incentive grants; risk reduction and health education; venereal disease; immunization; fluoridation; rat control; lead-based paint poisoning prevention; genetic diseases; family planning services; and adolescent health services. The only limitations would again be that funds could not be used for cash payments, construction or the purchase of land and facilities, and performance standards would apply only in the area of immunization of children against preventable diseases. FY 1982 funding would be $260 million in budget authority, $93 million (or 26%) less than the FY 1981 current services level of $353 million.

The social services block grant would replace the following programs: Title XX services and training; child welfare services and training; foster care and adoption assistance; child abuse; developmental disabilities; runaway youth; rehabilitation services; and non-economic development programs of the Community Services Administration. This block grant would allow funding for the same types of activities now funded on a categorical basis, but states would neither be limited to the specific programs now funded nor bound to allocate funding on the basis of "program or population earmarks." FY 1982 budget authority is set at $3.8 billion, $1.2 billion (or 24%) less than the FY 1981 current services level of $5.0 billion.

In addition, the budget proposes to phase out funding for the Legal Services Corporation and Juvenile Justice and Delinquency Prevention Programs and indicates that these could be eligible activities under the social services block grant. Funding authority for the programs is not, however, included in the block grant base.

Finally, the energy and emergency assistance block grant would replace the emergency assistance and hardship energy assistance programs. This block grant would allow states "complete flexibility to determine programs of fuel assistance and other crisis or emergency needs activities for their low-income households." FY 1982 budget authority would be $1.4 billion, $500 million (or 27%) less than the FY 1981 current services level of $1.9 billion.

In sum, compared to FY 1981 current service estimates for the existing categorical programs of $8.8 billion in budget authority, federal funding for all four block grants in FY 1982 would be 25% less, or $6.6 billion in budget authority. Projected FY 1982 outlays are even lower, at $5.4 billion. These figures differ signficantly from the Administration's February 18, 1981 outline. Then, the Administration estimated a higher FY 1981 current services base of $9.1 billion in budget authority, a higher FY 1982 block grant authority total of $6.8 billion, and a far higher rate of actual spending in FY 1982 ($6.8 billion in outlays or $1.4 billion more). It is unclear why the final proposal differs so markedly from earlier estimates since the earlier estimates lacked any specificity.

In explaining the Administration's block grant proposals, spokesmen for the Department of Health and Human Services have indicated that (1) states will be required to draw up plans showing how they intend to use the federal funds, and (2) state use of federal funds will be audited every two years.

The final Administration proposal does not confirm--but does not deny--that states will be expected to pick up future increases in the cost of health and social service activities funded with block grant dollars. This policy was included in the Administration's earlier outline, which in projecting federal spending through FY 1986 made it clear that the block grants were to remain fixed in amount--regardless of inflation--through 1986.

- Aid to Families With Dependent Children: The Administration proposes $480 million in savings over the $520 million proposed in the February 18 budget package. Many of the cuts in the earlier package were administrative revisions proposed in the Carter budget, which included: standardized work expenses, revised treatment of the earned income tax credit, adjusting earnings disregards, required periodic reporting of beneficiaries' earned income with retrospective accounting to determine benefits and counting step-parent income in determining benefit levels. Additional savings would be accomplished by (1) requiring each state to establish a mandatory workfare program, which would require able-bodied AFDC recipients to accept jobs in the private sector or participate in state established "community work assignments;" (2) terminating benefits at age 18 unless the child is in high school; and (3) terminating benefits to strikers.

Federal savings of $98 million are anticipated as the result of the implementation of the Michel amendment, which imposes fiscal sanctions on states for failure to meet each year's AFDC error rate target. State administrative costs created by these proposals were not delineated in the budget; however, total state savings of $850 million for FY 1982 are projected for all AFDC-related changes. There will be no Administration effort to change the AFDC program into a block grant to states in FY 1982. However, the idea is widely discussed and is likely to be proposed at a later date.

The Child Support Enforcement (CSE) program would be altered by adding alimony collection; financing the cost of CSE "incentive payments" out of both states and federal--instead of only federal--shares of collections; allowing child support not paid by absent parents to be collected by IRS: and requiring non-AFDC users of the CSE system to reimburse state and federal governments. Many of these items were proposed in the Carter budget. Legislation will also be sought to prohibit the discharge of child support obligations through bankruptcy proceedings. This proposal will bring in $128 million in additional collections to the federal government in FY 1982 and will reduce administrative costs by $45 million. The proposal will bring in $18 million in additional collections to the states and reduce administrative costs by $15 million.

- Food Stamps, Child Nutrition, WIC: The Administration proposes to save $2.3 billion in the food stamp program in FY 1982. The February 18 budget document outlined $1.8 billion in savings which included: (1) Use of a gross income limit of 130% of poverty to establish eligibility, saving $270 million; (2) elimination of overlapping food stamp and free lunch subsidies, saving $600 million; (3) proration of the first month's benefit, saving $210 million; (4) repeal of liberalized inflation protection and deductions scheduled for FY 1982, saving $460 million (this was also proposed in Carter's budget); (5) Maintenance of standard and shelter/dependent care deductions at FY 1981 levels saving $130 million; (6) mandating states to use retrospective accounting and budgeting (savings accrue in future years); and (7) various management initiatives, saving $180 million. The Administration estimates that nearly 400,000 households will become ineligible due to the proposed changes in income eligibility standards. By consolidating food assistance programs to Puerto Rico into a block grant, the Administration proposes to save $306 million in FY 1982. The block grant to Puerto Rico would be $922 million in FY 1982. Remaining savings are due to changes in economic assumptions. Taken together, the proposed changes represent a $3.1 billion decrease from Carter budget estimates. The Administration proposes a $1.2 billion supplemental for the food stamp program to fund the program fully for the remainder of the fiscal year.

The Administration proposed to save $1.7 billion in Child Nutrition programs in the February 18 budget package by: (1) extending the provisions in the Reconciliation Act regarding inflation adjustments saving $360 million (this was also proposed in the Carter budget); (2) changing eligibility for reduced price meals from 195% of poverty to 185% of poverty without the standard deduction, saving $85 million (this was also proposed in the Carter budget); (3) eliminating eligibility for private schools with tuitions above $1,500, saving $5 million; (4) eliminating subsidies to families above 185% of poverty for all programs, saving $860 million; (5) setting reduced price subsidies at half of free meal subsidies in all programs, saving $120 million; (6) verifying income eligibility for free meals on a sample basis, saving $100 million; (7) eliminating summer food service program, saving $131 million; (8) eliminating the categorical program for nutrition education, saving $15 million; (9) eliminating subsidies for snacks served in child care programs, saving $70 million; and (10) eliminating funds to purchase new food service equipment, saving $19 million.

In addition to the $1.7 billion package, the Administration proposes to save $95 million in budget authority for the special milk program by eliminating the eligibility of schools that participate in other food subsidy programs. The Administration proposes to reduce budget authority for special supplemental food programs for women, infants and children (WIC) by $326 million to $741.6 million in FY 1982. These savings would be achieved by tightening eligibility.

- Other Health Programs: The Administration proposes deeper cuts than were recommended on February 18th in health planning and proposes to phase the program out over the next three years. Health planning outlays would be reduced by $25 million to $122 million in FY 1981 and reduced by $64 million to $58 million in FY 1982. These initial cuts will focus on local rather than state agencies, as state agencies will receive a $13 million increase from the FY 1981 level of $32 million. All funding for health planning, however, will end as of FY 1983. Proposed outlays for the training of physicians and other health professionals would be reduced, far more sharply than originally planned, to $140 million in FY 1981 and $120 million in FY 1982. No new scholarships would be sought for the National Health Service Corps; a $16 million rescission request for FY 1981 and a $25 million reduction in FY 1982 is proposed for scholarship payments. The Administration also remains fixed in its intent to phase out the subsidy program for HMOs, eliminate the eight remaining Public Health Service hospitals and 29 clinics, and to phase out PSROs.

- Aging: The Administration proposes to consolidate funding for state agencies on aging, social services, senior center and elderly nutrition programs into a State and Community Block Grant. The Administration proposes $692 million in funding for FY 1982, the FY 1981 current services budget for the affected programs. Aging research, training and other discretionary programs are to be consolidated into a single discretionary fund which will be $25 million below the FY 1981 current services budget for those programs. The Administration proposes to terminate the National Clearinghouse on Aging, but will continue to support the Federal Council on Aging. Indian programs will be continued at the FY 1981 level of $6 million.

- Refugee Assistance: The Administration proposes to terminate the Cuban Refugee program initiated in 1978 and to reduce funding for refugees and recent Cuban and Haitian entrants, saving $50 million in FY 1981 and $68 million in FY 1982. Lower projected refugee admissions account for most of the reduced requirements in 1981 and half of the 1982 change; the balance of the FY 1982 revisions reflect the termination of the Cuban refugee program.

INTERNATIONAL TRADE AND FOREIGN RELATIONS

The credit programs offered under the Export-Import Bank are among the most important to the states in the international area.

TABLE: New Budget Proposals for EX- IM Bank
(in billions of dollars)

	1981			1982		
	Carter Budget	Reagan Budget	Decrease(%)	Carter Budget	Reagan Budget	Decrease(%)
Direct Loans	5.5	4.7	0.8 (13.7%)	5.0	4.0	1.0 (20%)*
Financial Guarantees	1.8	0.8	1.0 (55.6%)	2.0	0.9	1.1 (55.9%)

Impact of the President's Budget on States

- Given the method of local disbursements, the short-term effect of EX-IM cuts is primarily symbolic. The Administration's underlying strategy, however, involves gradually dismantling the bank. No plans for an institution to deal with stiff foreign competition in export financing are presented.
- The consequences of this strategy are twofold:
    1. The economic growth that states associate with export expansion will slow as financing for exports decreases the sales of state-produced products overseas. Competitive export financing is the linchpin of any export growth plan.
    2. The present economic situation in states having firms doing business through EX-IM credit programs will likely experience a decline in export-dependent business activity. The relative impact of this decline is suggested in state-by-state data available from NGA Committee staff. The EX-IM facilitated contracts not only produce important revenue sources, but also sustain and generate a significant number of jobs in many states.

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* The Reagan budget proposes, however, to retain $400 million in discount loan authority that was eliminated by President Carter. The discount program does not operate as part of the direct loan program.

LAW AND JUSTICE

New Budget Proposals

- The Office of Juvenile Justice and Delinquency Prevention would be eliminated in FY 1982;
- The Legal Services Corporation would be eliminated in FY 1982;
- The Bureau of Justice Statistics and the National Institutue of Justice will be reduced by nearly 50%; and
- The Drug Enforcement Administration would lose 86 staff positions.

The February 18 Economic Recovery Plan did not cover the Department of Justice programs. The March 10th budget revealed for the first time the Reagan Administration's proposals. The President's intention to turn program responsibility back to the states is exemplified here. The federal role in the criminal justice area would be substantially reduced under these budget proposals. The Administration proposal would reduce the Carter request by $231.8 million. Most of the cuts will be in programs offering assistance to state and local governments. However, some of the affected programs are designated as eligible activites under a social services bock grant in the Department of Health and Human Services (HHS). Funding for the programs was not, however, included in the base of the block grants. Specifically, the Admininistration proposes to:

- Authorize programs under the Office of Juvenile Justice and Delinquency Prevention to be funded from the social service block grant in HHS, although JJDP funding was not included in the block grant base;
- Eliminate the Legal Services Corporation as a separate corporation and allow legal services to be funded from the block grant to states for social services. The Administration believes that much of the work performed by LSC should be the "professional responsibility" of private attorneys;
- Reduce the Carter budget proposal for the National Institute of Justice and the Bureau of Justice Statistics by $21 million. Thus, NIJ/BJS would receive $39.2 million; the Office of Justice Assistance, Research and Statistics would receive $9.4 million for administration including the continued phaseout of LEAA;
- Continue the National Institute of Corrections (NIC) at $12.9 million;
- Eliminate the $3 million Carter budget proposal for upgrading state and local detention facilities currently housing federal prisoners;
- Continue the Public Safety Officers' Benefits program at $12.5 million; and
- Reduce assistance given to states by the Drug Enforcement Administration (DEA). For example, 86 positions will be eliminated from the state and local drug task forces, resulting in the probable close-down of 5 or 6 of the 19 current state and local Drug Enforcement Task Forces programs.

TRANSPORTATION

Impact of the President's Budget on States

The overall transportation budget authority proposed by President Reagan for FY 1982 will be reduced from the $25.5 billion Carter Administration budget level to $20.5 billion, a 20% cut. The cuts reflect the philosophy of the Reagan Administration to:

- reduce the federal role in transportation to areas of national importance and stretch out construction programs;
- return to state and local governments or the private sector the responsibility of funding substantial portions of the transportation programs now funded by the federal government; and
- phase in substantial user fees on airway and waterway users, as well as substantial fare increases for transit and Amtrak passengers.

The March 10th budget maintains the very substantial cuts announced February 18th.

Reduction or eventual elimination of subsidies for mass transit operations, Amtrak and urban and rural highway construction programs are to be phased in gradually, providing some time for state and local governments to adjust service levels or to develop alternative funding resources. Reductions in federal requirements through grant consolidations and elimination of highway categories could somewhat benefit state and local governments in adjusting to funding level reductions. However, elimination of the local rail service assistance program in FY 1981, combined with the elimination of Conrail funding by FY 1983 and substantial cuts in Amtrak subsidies, does not provide sufficient time for state and local governments to plan alternatives for the transportation of freight and passengers. For further information on the February 18 proposals, see NCSL-NGA analysis, "The Economic Recovery Program: Impact on the States," February 20, 1981.

Major Programs Affected by President Reagan's Budget Proposals

- Highways: The $2.0 billion reduction from the Carter budget level for highway funding includes a 43% cut in Interstate 4R funding (from $1.4 billion to $800 million) and a 17% cut in primary highway funding (from $1.8 billion to $1.5 billion). The $500 million highway construction safety program is eliminated, and the bridge program is cut by $125 million. The slowing down of capital construction and reconstruction programs may require massive future government spending to replace and rehabilitate facilities that deteriorate due to a lack of maintenance. The budget assumes that states will take over responsibility for all highway-related spending with the exception of interstate, primary and bridge programs--after 1983. The Reagan Administration is proposing a long term extension of the Highway Trust Fund with no changes in the current 4¢ per gallon gasoline tax.

- Mass transit: A reduction of $1.34 billion in budget authority from $3.8 billion proposed in the Carter budget for transit capital grants would result in lower funding for new urban rail systems and extensions of existing systems. The total elimination of transit operating assistance by 1986 will have a very serious impact on both state and local governments, as well as transit users, who will be faced with both increased fares and reduced service.

- Rail: In addition to the $380 million cut in Amtrak capital and operating subsidies, the Reagan budget also calls for a $288 million cut in Northeast Corrider improvements. The latter cut is in addition to a $42 million reduction in Northeast Corrider funding proposed by the Carter Administration, resulting in a total funding reduction of 62% of FY 1981 funding levels.

  The elimination of the local rail service assistance program may have significant consequences for the economies of rural areas which will almost certainly lose freight rail service if states are not able to make up for the loss of the $80 million in federal funds.

- Aviation: The Reagan Administration will propose a restructured ADAP program which will include the "defederalization" of major airports. The defederalization will be phased in over a period of time, with 39 airports made ineligible for ADAP funds in FY 1982. However, the total number of airports which will lose eligibility will increase from 69 to about 100 by 1985. This change will result in a reduction in funding levels for ADAP totaling $2.025 billion between 1982 and 1986 from the levels proposed by Carter.

- Highway Safety Grants: The $170 million cut in the state and community highway safety program (including $40 million for enforcement of the 55 mph speed limit) is in addition to a cut of $17.5 million proposed in the Carter budget.

Appendix

Congressional Budget Process

Since 1975, congressional consideration of the President's budget has been governed by the provisions of the Congressional Budget and Impoundment Control Act.

The initial step in the process is the submission to Congress of the President's budget in mid-January. Shortly after it is submitted, the budget committees in the House and Senate hold hearings on the spending proposals and the economic assumptions on which they are based.

A number of separate actions take place concurrently with budget committee hearings. The standing committees advise the budget committees on programs and outlays likely to be authorized during the year. The Joint Economic Committee advises on the economic outlook and appropriate fiscal policy. The Congressional Budget Office reviews the budget, makes economic projections, and then files a report dealing with national economic policy, alternative total budget levels, and national budget priorities.

Based on these materials and the results of their own hearings, the budget committees recommend a first concurrent resolution on the budget to their respective houses by April 15. These resolutions cover the recommended levels of budget authority and outlays in total and for each of the major functions in the budget (but not for individual programs), and the deficit, revenues and expenditures, and changes in federal debt implied by the spending and taxing decisions.

The first budget resolution establishes targets for budget authority and outlays. These budget targets, which represent a congressional determination of appropriate fiscal policy and national budget priorities, guide Congress in its subsequent spending and revenue decisions. However, the allocations for each function are not binding on Congress at this stage. Using the normal procedures for enacting a resolution, including a conference committee to reconcile differences between the two houses, Congress approves the first resolution by May 15.

May 15 is also the deadline for reporting legislation authorizing new spending. Authorization bills reported after that date, with a few exceptions, are subject to a point of order unless an emergency waiver is granted.

In a statement that accompanies the first budget resolution, the totals for functions (e.g., community and regional development, national defense) are divided among the committees of the House and Senate, so that each committee is working against a known, but nonbinding, ceiling.

Under the budget process, Congress must complete action on bills and resolutions providing new budget authority and new spending authority by one week after Labor Day. Exceptions are made for appropriations bills that cannot proceed until authorizing bills are passed. Exceptions also arise when Congress is unable to agree on particular bills, for instance when an issue such as abortion holds up appropriations bills. In this case, a "continuing" appropriations bill is passed as a stop-gap measure to allow programs to function until an appropriations bill is enacted.

Congress is scheduled to pass a second budget resolution by September 15. This resolution covers the same subjects as the first one, but it is binding. The resolution reflects updated estimates of both expenditures and revenues, as well as any program decisions that have changed since the first resolution.

The schedule calls for Congress to complete action on "reconciliation" bills and resolutions by September 25. Reconciliation measures alter previously passed authorization and appropriations bills to conform to the spending limits set by Congress. Reconciliation was originally conceived as a part of the second budget resolution, but for FY 1981 Congress attached reconciliation instructions to the first resolution, a precedent that the House may follow this year.

All action on the budget should be completed by October 1, when the federal government begins its new fiscal year.

Table 4

The Federal Costs Created by Delaying and Stretching Out Capital Improvement Outlays
(in millions of dollars)

Capital Improvement Activity	1981	1982	1983	1984	1985	1986	Total Delay Costs
Federal Highway Construction Grants							
Current Outlay Base[a]	8,734	8,401	9,854	10,828	11,503	12,395	
Proposed Outlay Base[a]	8,734	8,157	8,643	9,128	9,415	10,161	
Reduction and Stretch Out[a]	0	-244	-1,211	-1,700	-2,088	-2,234	
Cost of Delay[b]		50	235	266	300	301	1,152
Water Resource Development Projects							
Current Outlay Base[a]	2,520	2,675	3,120	3,258	3,110	2,772	
Proposed Outlay Base[a]	2,520	2,585	2,783	2,714	2,596	2,555	
Reduction and Stretch Out[a]	0	-90	-337	-544	-514	-217	
Cost of Delay[b]		18	58	85	74	30	265
Waste Water Treatment Facilities							
Current Outlay Base[a]	4,200	4,220	4,230	4,250	4,100	4,100	
Proposed Outlay Base[a]	4,200	4,095	3,185	2,280	2,140	2,150	
Reduction and Stretch Out[a]	-	-125	-1,045	-1,970	-1,960	-1,950	
Cost of Delay[b]		26	181	309	282	270	1,068
TOTAL DELAY COST		94	474	660	656	601	2,485

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a. Office of Management and Budget, Budget Revisions, Fiscal Year 1982, Washington, D.C., March 1981.

b. A calculated value based on the following data and premises: (1) As per the Budget Revisions a two year delay is assumed for each of the annual stretchouts; (2) Using the OMB projections for annual changes in the Consumer Price Index the historical relation between this measure and the Commerce Construction Composite Index was calculated. The CCCI was projected to 1986 and used as the basis for estimating construction inflation resulting from the projected construction stretchouts.

SOURCE: Academy for Contemporary Problems. Based on work presented by Pat Choate, As Time Goes By: The Costs and Consequences of Delay, Washington, D.C., Academy for Contemporary Problems, 1980.

National Governors' Association

George Busbee
Governor of Georgia
Chairman

Stephen B. Farber
Executive Director

ALTERNATIVE MEDICAID COST CONTAINMENT RECOMMENDATIONS

ATTACHED, PLEASE FIND FOR YOUR INFORMATION ALTERNATIVE MEDICAID COST CONTAINMENT RECOMMENDATIONS THAT HAVE BEEN DEVELOPED BY THE COMMITTEE ON HUMAN RESOURCES. IT IS FELT THAT THE RECOMMENDED CHANGES, WHICH ARE CONSISTENT WITH ESTABLISHED NGA POLICY, WILL ENHANCE SUBSTANTIALLY THE ABILITY OF STATES TO CONTAIN MEDICAID COSTS.

ALTHOUGH THE ADMINISTRATION'S PROPOSAL FOR ADDITIONAL FLEXIBILITY FOR THE STATES IS SUPPORTED, THE PROPOSED NATIONWIDE 5% CAP ON FEDERAL PARTICIPATION COULD NOT BE ACHIEVED WITHOUT SHIFTING SIGNIFICANT FEDERAL COSTS TO AT LEAST SOME STATES. STATES THAT EXPERIENCE CASELOAD GROWTH DUE TO CIRCUMSTNACES BEYOND THEIR CONTROL WOULD BE PARTICULARLY HARD HIT. FURTHERMORE, A NUMBER OF STATES HAVE ALREADY EXHAUSTED MANY COST CONTAINMENT OPTIONS SUCH AS REDUCING REIMBURSEMENT RATES, ELIGIBILITY LEVELS AND SERVICE COVERAGE. EVEN WITH ADDITIONAL FLEXIBILITY, THE STATES' ABILITY TO LEVERAGE HEALTH CARE COSTS IS LIMITED, PARTICULARLY WITH NO CONTROLS ON THE FAR LARGER MEDICARE PROGRAM. AS AN ALTERNATIVE MEDICAID COST REDUCING PLAN, WE WOULD PROPOSE THAT CONGRESS ENACT:

-- MAJOR CHANGES IN FEDERAL POLICIES THAT WILL ALLOW STATES TO ACT AS PRUDENT PURCHASERS OF MEDICAL CARE;
-- DEVELOPMENT OF PROSPECTIVE REIMBURSEMENT POLICIES TO REPLACE INFLATIONARY MEDICARE COST-BASED HOSPITAL REIMBURSEMENT POLICIES (A 10% INTERIM LIMITATION IN FY'82 WOULD SAVE $1.7 BILLION); AND
-- A BLOCK GRANT FOR LONG-TERM CARE PORTION OF THE MEDICAID PROGRAM THAT WOULD ALLOW STATES TO CREATE ALTERNATIVE COMMUNITY-BASED SERVICES.

THESE PROPOSALS HAVE THE POTENTIAL TO REDUCE FEDERAL EXPENDITURES BY SUBSTANTIALLY MORE THAN THE $1 BILLION SAVINGS PROPOSED TO BE ACHIEVED BY THE MEDICAID CAP.

HALL OF THE STATES • 444 North Capitol Street • Washington, D.C. 20001 • (202) 624-5300

MEDICAID REFORM RECOMMENDATIONS

1. States need much greater flexibility to act as prudent purchasers of medical services and supplies. Federal policies should allow states to develop cost-effective financing structures; to establish reimbursement policies that encourage efficiency and discourage waste; and to selectively purchase services from efficient providers.

   For example, states should have the latitude to;

   - restrict or preclude the participation of providers whose costs are excessive (with certain exceptions, e.g., specialized care in tertiary institutions);
   - contract with physicians, hospitals, and other providers in a manner that establishes a point of responsibility and accountability for total medical costs. States should be allowed to use all the tools available to private industry, such as prospective budgeting, shared risks, and positive incentive reimbursement policies;
   - use competitive bidding and negotiated contracts for the purchase of laboratory services and medical devices;
   - adjust reimbursement rates consistent with the availability of resources, i.e., consistent with budget constraints;
   - limit reimbursement for certain complex medical procedures of a highly specialized nature--heart surgery, for example--to hospitals that have the appropriate expertise and volume of experience; and
   - establish prospective hospital reimbursement rates based upon the cost of care in efficiently-run hospitals, and especially to establish prudent rates for hospital admissions involving certain frequently performed and relatively simple procedures.

   Rationale:

   States are precluded by federal law from acting as prudent purchasers of care. Under current Medicaid law, clients are free to choose, and states are obligated to reimburse, any provider who is qualified to provide a covered service regardless of cost. States must pay a hospital its "reasonable" costs--costs largely determined by the hospital itself. In addition, states are limited to two basic financing approaches: fee-for-service and a heavily regulated capitation approach. These restrictive policies increase state and federal costs, and, in some instances, preclude states from ensuring that care is of adequate quality (e.g., by limiting highly specialized care to hospitals that are best equipped to provide it). States are not allowed to act as prudent consumers of care, and this fact contributes to the lack of market discipline in the health care sector. The changes proposed would remedy this problem.

2. Medicare retrospective reasonable cost hospital reimbursement policies must be replaced by prospective reimbursement policies that encourage efficiency and that do not subsidize waste.

Rationale:

Medicaid programs purchase medical services from the private medical care delivery system, and constitute only approximately a tenth of that market. Federal Medicare full cost retrospective reimbursement policies are inflationary, and contribute significantly to medical care inflation faced by the states and other payers. Medicare constitutes over 25% of the hospital market. Hospital costs currently are escalating at an annual rate of 18% and Medicare reimbursement policies must be revised completely if Medicaid and other relatively small payers are to realize reductions in hospital expenditures.

3. States should have the latitude to enhance the role of Medicaid clients as consumers of care, and to share the savings of cost-effective care with clients in the form of increased income, expanded benefits, or extended eligibility.

Rationale:

Medicaid clients have virtually no incentive to seek care from efficient providers, and this makes it much more difficult for states to expand the use of cost-effective providers and delivery mechanisms. Furthermore, some HMOs are reluctant to participate in the Medicaid program because of the month-to-month changes in the eligibility status of Medicaid clients. The proposed change would promote market discipline in the medical care sector.

4. States should have much greater latitude to reduce unnecessary utilization of health care services. Toward this end, the following changes in federal policy are recommended:

   - o states should be given wider authority to impose realistic and appropriate sanctions against recipients who willfully overutilize Medicaid, including the ability to suspend or terminate eligibilty for clients who chronically overutilize services;

   - o federally-mandated Professional Standards Review Organizations' (PSROs) purview over Medicaid services should be removed, and states should be given the authority to establish utilization review programs and policies consistent with state needs and perspectives; and

   - o states should be allowed to implement a nominal co-payment on mandatory services for categorically eligible Medicaid recipients and be given the latitude to selectively apply co-payments only to certain services, diagnostic groups, and settings.

Rationale:

Current federal policies preclude states from effectively reducing the unnecessary use of services:

- o Medicaid clients face virtually no disincentives with respect to the overutilization of services;

- PSROs tend not to be sensitive to the fiscal implications of their decisions and have not been adequately responsive to state concerns; and
- states are precluded from implementing cost-sharing requirements for physician and other mandated services, which would provide incentives to clients to use services only when needed.

States also should have the latitude to selectively apply or waive cost-sharing policies (e.g., to waive co-payments for preventive care, or for recipients with chronic conditions).

5. States should be given greater flexibility to selectively provide services where the need is greatest and/or where resources will allow.

   - states should be able to provide certain optional services only to selected diagnostic groups whose need for a given service is greatest; and
   - states should have the authority to allow political subdivisions to provide matching funds to obtain federal financial participation for optional services and eligibility groups not covered statewide.

   Rationale:

   Federal policies require that Medicaid programs provide covered services to all Medicaid recipients on a statewide basis. States should be able to adopt reasonable policies to best meet client needs within limited resources. For example, states that are forced to reduce coverage of pharmaceuticals should be allowed to continue coverage for maintenance drugs for end-term illnesses (e.g., cardiac conditions, multiple sclerosis). Furthermore, states should be allowed to offer optional services and benefits where local resources are available but state resources are not.

6. Procedural requirements associated with fiscal penalities in the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) program should be repealed.

   Rationale:

   The current EPSDT requirements focus on process and not on performance. For example: states are required to inform eligible clients about the program on a face-to-face basis, and are precluded from more cost-effective alternatives. Furthermore, states are penalized for problems beyond their control, such as the lack of availability of dentists in some areas.

7. Federal laws and regulations should be amended to allow the Secretary to waive the 50% Medicaid/Medicare Enrollment mix requirement for Health Maintenance Organizations (HMOs) in medically underserved areas.

Rationale:

Current federal policies require that the served population of HMOs be comprised of no more than 50% Medicare and Medicaid clients within 3 years of start-up. This has a chilling effect on Medicaid HMO growth, particularly in areas where a disproportionate segment of the population is poor. Furthermore, HMOs that do participate in the program must curtail marketing efforts and Medicaid enrollment expansion as they reach the 50% threshold. HMOs constitute one of very few proven methods for containing medical care costs, and represent an important alternative to the fee-for-service approach. Furthermore, HMOs actually can enhance access to needed care by Medicaid recipients in underserved areas. The proposed change is a reasonable solution to the present problem.

8. A maximum 90-day time limit should be established for federal approval of program changes proposed by states. Federal requests for additional information would have to be made within 30 days of a state request for approval of a change, and if a final federal determination has not been made within the 90-day maximum, the proposed change automatically would be deemed approved.

Rationale:

Many states have been faced with extraordinary delays in federal approval of proposed program changes. This often has necessitated substantial cost overruns for states, and has forced undesirable reductions in other programs. States often are required to implement federal changes very quickly; the proposed change would force some discipline on federal agencies.

9. A uniform nationwide 5% cap on federal financial participation increases for FY'82 is not acceptable. The most immediate problem is that it will take time for states to develop and adopt many of the initiatives to contain costs. Furthermore, the cap would have widely different implications for individual states, depending on economic conditions, current service coverage and eligibility policies, and the rate of increase in local medical care costs. States that experience caseload growth due to circumstances beyond their control would be hit particularly hard. Finally, even with additional flexibility, the states' ability to leverage sky-rocketing medical care costs is limited, particularly when the Administration plans no controls on the far larger medicare program. As an alternative Medicaid cost reducing plan, we would propose that Congress enact:

o the changes recommended in Items 1-8;

o a 10% limitation on Medicare hospital reimbursement rate increases for FY'82; and

o a capped block grant for long-term care.

See attached response to the 5% cap for further details.

RESPONSE TO 5% MEDICAID CAP PROPOSAL

States are urgently concerned with Medicaid program cost increases, and will welcome the Administration's proposal for "additional flexibility to adjust payment rates for providers, to organize more cost-effective systems of care, to change covered services, and to adjust eligibility in order to reduce program costs." We trust that the Administration actually will support our proposed changes in federal policies. States will use aggressively any new flexibility to reduce costs, and the federal government will share in the resulting savings. However, a fixed cap will have extremely different implications for individual states, depending on economic conditions, current service coverage, and eligibility policies and the rate of increase in local medical care costs. Before an arbitrary cap is imposed nationwide, states at least should have the latitude to demonstrate that, given the needed flexibility, together they can achieve the savings desired.

Medicaid programs purchase medical services from the private medical care delivery system, and constitute only approximately a tenth of that market. Federal Medicare full cost retrospective reimbursement policies are inflationary, and contribute significantly to medical care inflation faced by the states. Medicare constitutes over 25% of the hospital market. Hospital costs currently are escalating at an annual rate of 18% and Medicare reimbursement policies must be revised completely if Medicaid and other relatively small payers are to realize reductions in hospital expenditures. We would propose a cap of 10% on the rate of increase in Medicare hospital reimbursement rates until a more sophisticated prospective reimbursement methodology is developed. Based upon current estimates, this would decrease FY'82 Medicare expenditures on hospital care by about $1.7 billion (from $31.6 billion). This also would make it far more feasible for Medicaid programs to impose similar restrictions.

Unlike its role in the financing of medical services, the Medicaid program is the major purchaser of long-term care services and accounts for over one-half of nursing home expenditures. Given sufficient flexibility, states therefore have the potential to alter substantially the structure of long-term delivery. A capped block grant for only the long-term care portion of Medicaid may be acceptable to the states. However, such an approach must give states much greater flexibility with respect to such issues as service coverage, reimbursement policies, family supplementation, and institutional capacity limitations. A 7% cap would reduce federal Medicaid expenditures on nursing home services by about $400 million (from $6.9 to $6.5 billion). To be acceptable, after FY'82, such a program should be indexed appropriately for input cost inflation (e.g., using the National Nursing Home Input Price Index) and for each state's weighted growth in its elderly population. We share with the Administration and Congress a deep concern over federal policies that encourage the unnecessary institutionalization of our citizens, and ask for greater flexibility to develop a comprehensive system of services which emphasizes the use of the least restrictive settings appropriate to individual needs. A block grant for long-term care would give states the desired latitude, and would reduce federal expenditures because nursing home services constitute the largest and most rapidly rising component of Medicaid costs. OMB documents refer to "the shift in services from state to Medicaid funding" as an argument for an overall Medicaid cap. The only data substantiating this claim is for long-term care, indicating that a long-term care block grant would address this federal concern. An appropriately indexed block grant would escalate much less rapidly than historical rates of increase in Medicaid nursing home costs. Most states can no longer afford that historical rate, and might accept constrained growth of federal financial participation in exchange for significantly enhanced flexibility.

STATEMENT OF U.S. SENATOR HARRISON A. WILLIAMS, JR.
TO THE SENATE BUDGET COMMITTEE
APRIL 3, 1981

Mr. Chairman, and members of the Committee, I appreciate the opportunity to offer my views on several issues pertaining to housing and community development programs within the jurisdiction of the Senate Committee on Banking, Housing, and Urban Affairs. These programs are the Section 8 and public housing programs, the Community Development Block Grant program, the Urban Development Action Grant program and the FHA insurance program.

For assisted housing, that is, Section 8 and public housing, which is contained in Function 600 of the budget, the President has recommended $18.2 billion in long-term budget authority in order to reserve approximately 175,000 new and existing units during FY 1982. This level compares with 206,000 units reserved in FY 1980 under the Carter Administration and 516,721 units reserved in FY 1976 and the transition quarter, during the last year of the Ford Administration. Over the course of the 1970's, our annual reservations of assisted housing units dropped dramatically. An important reason for this decline, has been the growing unhappiness with Section 8 because of its per unit costs, and the long-term obligations that the program entails.

Section 8 is expensive, perhaps too much so. There are economies that can be made in the program, particularly the new construction component of the program, as a recent General

Accounting Office study states. But there is no escaping the fact that all housing especially for low-income people is expensive to build. And lest we believe that the solution is simply to make cutbacks in the amount of money provided to assisted housing overall, let me indicate that such action is not itself cost-free. We must continue to provide housing assistance, or face unacceptable consequences. For one thing, we are in the midst of a serious rental shortage all across the country. The National Low-Income Housing Coalition estimates that for the 7.5 million renter households with incomes below $5,000 annually, there are only 1.5 million units available at an affordable rent, defined as no more than 25 percent of monthly income. Moreover, according to HUD, the actual shortfall in production of multifamily housing during the 1980's will amount to 170,000 to 300,000 units a year. In other words, if current trends hold we can expect to lose signficantly more units from the stock than we will build to replace them, and the poor will suffer disproportionately.

It seems to me that to the extent we fail to encourage housing production, we only create greater demands in the future that cannot be accommodated, and thus push rents higher as supplies tighten. Housing must be understood as a commodity that we must continue to produce to meet the requirements of a changing, growing population, and to meet changes in the composition of the housing stock. We can cut the housing budget today, and save some money, but we shall pay for it dearly later on. There will be increased overcrowding, a reduction in housing quality, upward pressure on rent levels, continued stagnation of urban neighborhoods, and the perpetuation of a host of adverse social conditions. All of these consequences produce costs of their own, both in human and dollar terms.

And let me say to those who place their faith in better control over Federal spending and lower interest rates as the ultimate salvation of multifamily housing production, that much more is needed to provide for low-income persons. In many places in the country, even if interest rates dropped to zero, the monthly rents required for newly constructed apartments for low income people would still be too high for such individuals to afford.

Based on what we know of housing supply and demand, the Reagan budget proposal for assisted housing is too low. Housing assistance, in fact, receives a larger cut than any other social program. The Administration has denied housing assistance a place in the so-called safety net, despite the millions of people with modest incomes who are finding it increasingly difficult to secure affordable shelter that offers at least a basic level of decency and safety. The result is that many individuals who have already waited on assisted housing lists for two years or more will continue to wait. But, I recognize the spirit of budget austerity that has gripped the Congress, and I urge that at the very least the Budget Committee accept the President's recommendation for FY 1982. I should point out that this was the recommendation made on March 13, 1981, to the Budget Committee by Chairman Garn and myself on behalf of the Senate Banking Committee.

Mr. Chairman, there is another area of critical importance in the assisted housing field that should be addressed. I am speaking of the proposal to increase tenant contributions to 30 percent of income for people obtaining housing assistance. Under current law, new tenants of Section 8 housing who earn between 50 and 80 percent of median area income would, at the Secretary's discretion, be required to pay 30 percent of their income for rent. The Administration, however, chooses to apply this rent increase to all tenants, current as well as new, regardless of income. The increase would take effect over 5 years. This is not just a 20 percent increase in rent. This is an increase of 20 percent in the share of income required to pay for rent in assisted housing -- a significant distinction. Mr. Chairman, this proposed increase in unconscionable, and the Budget Committee should not budget the reduced outlays resulting from any rent hike, other than that already allowed in the law, nor should the Budget Committee assume that the Banking Committee will adopt such an increase.

Let me comment on some of the arguments advanced in support of this proposed increase. First, it is argued that the savings attributable to increasing the rent requirement can result in more people helped. This is untrue, unless the savings, expressed in reduced outlays is somehow converted to contract authority and budget authority. No one, including the Administration, has proposed to do that.

It has also been argued that the increase in rents is necessary to promote greater equity between those low income people who receive Federal housing assistance, and those who do not. It is pointed out that those receiving assistance pay a smaller share of their income in rent than non-assisted tenants Frankly, it is the purpose of assisted housing to ease rent burdens and to make housing more affordable. The logical and absurd extension of this equity argument is to make rents equal between assisted and non-assisted tenants, or, in other words, to help nobody. If equity is a concern, it seems to me that we would serve that purpose by raising the number of people aided, not by increasing the hardship of the people aided.

And, the increase would indeed cause hardship. After all, those in Section 8 housing are overwhelmingly below 50 percent of median income. The average income of a Section 8 family of four is only $6,000 a year, a marginal income to be sure. For this family, the rent increase proposed will divert $300 badly needed dollars per year from food, transportation, clothing, personal care, and other necessities of life. Combined with cuts proposed in a host of other social services, such as food stamps, legal aid, child nutrition. Medicaid, and so on, this increase is likely to push people over the brink into financial desperation.

The proposal is also defended by the argument that many homeowners are already paying 30 percent of their income in housing costs. But the statistics indicate otherwise. Homeowners with a mortgage average only 19 percent of their income in housing costs, and that does not count the hefty mortgage tax deduction which many receive to reduce the effective cost of their housing.

Lastly, and perhaps most important, the proposal ignores the fact that many tenants of assisted housing already pay in excess of 30 percent of their income for housing costs because they are responsible for their own utility bills, and their utility allowances are inadequate. One HUD study of Section 8 rents indicates that some tenants pay as much as 41 percent of their income in what the study calls "net rent", that is, rent plus utilities. Naturally, burdens of this sort, to the extent that they become unbearable, can only lead to higher rent deliquencies. Mr. Chairman, this increase is unfair and punitive It amounts to government-sponsored inflation for those who are already inflation's worst victims.

I have attached for the Committee's information, a chart describing the serious effects of the increase on the average Section 8 family of four, using as a basis the Bureau of Labor Statistics guide for how income is distributed among basic necessities.

In the community development area, the President proposes for FY 1982 a level of $4.166 billion for a combined CDBG/UDAG program. Assuming the block grant program is held to the current law amount of $3. 69 billion, this would leave almost $500 million for a UDAG program. This total represents a substantial reduction in actual dollars for the UDAG program, and in purchasing power for the block grant program.

Mr. Chairman, the issue here is not so much the funding level. Although it can properly be argued that this cut will only delay community revitalization, and thus will impose additional inflationary cost burdens on localities, it is clear that the Senate is not inclined to provide more than the President has requested. Thus, the issue will be the distribution of funds within the community development function. The Committee should accept the President's recommendations in this area, but should remain silent on how much money should go respectively for block grants and for UDAG, in order not to prejudice the Banking Committee's actions.

Federal Housing Administration insurance is another concern. The Administration has proposed a limitation of $35 billion in the amount of insurance to be written during FY 1982. I am concerned that this limitation may be viewed as a cap rather than a measurement or an estimate. I believe we must tread cautiously here. FHA insurance has been an integral part of our housing industry for more than 40 years. What happens to FHA can have serious influence on the entire market. To the extent that we impose rigid caps on the amount of insurance written is the extent to which we become involved in credit allocation among the various regions of the country. I would therefore urge the Budget Committee to portray this limitation as a measurement, a guide if you will, that will not require binding actions before their effects are duly, deliberately considered.

Mr. Chairman, again I am grateful for this opportunity to offer my views on important matters affecting housing and community development.

DISTRIBUTION OF CONSUMPTION EXPENDITURES FOR A 4-PERSON FAMILY NEEDING SECTION 8 ASSISTANCE

(Based on Bureau of Labor Statistics (BLS) Lower Budget Family)

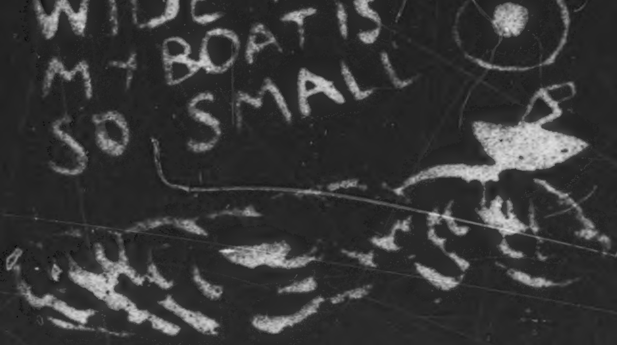
ITEM	$s SPENT PER YEAR AT 25% INCOME FOR HOUSING*	$s SPENT PER YEAR AT 30% INCOME FOR HOUSING	REALLOCATION OF FAMILY BUDGET
RENT	$1,500	$1,800	$ +300
FOOD	2,293	2,059	-234
TRANSPORTATION	589	529	- 60
CLOTHING	508	456	- 52
PERSONAL CARE	189	170	- 19
MEDICAL CARE	687	765	- 78
OTHER FAMILY CONSUMPTION	322	289	- 33

-- Consumption totals slightly higher than $6,000 because of rounding.

*Mean Income for a Section 8 Family of 4 approximately $6,000 per year.

NOTE: BLS Lower budget family would pay the remaining 18.7% of total Income in Taxes, Social Security, and other items. Since Section 8 Family subsisting on unearned income would pay no taxes, consumption budget alone is applicable.

A CHILDREN'S DEFENSE BUDGET
A RESPONSE TO PRESIDENT REAGAN'S BLACK BOOK


DEAR LORD
BE GOOD TO ME
THE SEA IS SO
WIDE AND
MY BOAT IS
SO SMALL

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March 17, 1981

Revised

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PROPOSED REAGAN CUTS ARE A MASSIVE ASSAULT ON NEEDIEST FAMILIES AND CHILDREN

President Reagan and Federal Budget Director Stockman are saying their "spending cuts will not be at the expense of the truly needy." Regardless of what they are saying, what they are doing is hacking away at programs that are the lifelines of millions of the poorest families and children who will become hungrier, colder, and sicker than they already are. Millions of AFDC recipients, 66 percent of whom are children receiving an average monthly benefit of $93.13 (or $3.10 a day), are being asked to bear severe, across-the-board cutbacks in food stamps, Medicaid, AFDC, child nutrition and social services. The combined impact of these cuts is profoundly inequitable and will be devastating to already barebones lives.

A welfare family of four in Texas now receives $1,680 in AFDC and $2,568 in food stamp benefits for a total of $4,248 a year. In Mississippi, a welfare family of four now receives $1,440 in AFDC and $2,664 in food stamps for a total of $4,104 a year. Already at only half the poverty line, if President Reagan and Mr. Stockman have their way, each mother and child will:

- o Lose about $350 a year in food stamp benefits as a result of the Helms amendment.
- o Face cutbacks in Medicaid benefits which will require more out-of-pocket money for currently provided Medicaid services.
- o See their unindexed benefit levels, already reduced by 12 percent since 1976 by inflation, decline further.

- Have their heating bills and stress rise while their child care and other social services decrease.
- Watch the previously targeted compensatory education programs for their disadvantaged children under Title I or special education programs for their handicapped children be cut back or wiped out.
- See their children find fewer and less nutritional meals available to them at Head Start and day care centers because of child care feeding cuts.

The recent Reagan Administration announcement that seven programs, including Head Start, summer jobs, Medicare, and Social Security benefits for the elderly, would be shielded from their budget knife was politically clever as well as being a step in the right direction. But it was by no means enough. Promising not to cut Head Start, which we applaud, cannot be done at the front door while child nutrition and CETA and Title XX Social Services funds on which Head Start children and families and centers also rely, are cut at the back door. Leaving free school lunches unscathed cannot hide the face that $1.1 billion is being cut from the overall child nutrition program, a cut so deep many schools may drop the program altogether and deprive children eligible for free as well as reduced priced lunches of needed meals.

Not only is the Reagan Administration's promise to avoid hurting the truly needy being broken, their proposed cuts will especially undermine those poor families struggling to stay off or get off welfare by making it impossible in many cases to get day care for children, by greatly reducing the deduction for welfare purposes of the expenses of working, and by retrospective accounting for welfare and food stamps. And they have made a mockery of their commitment to make all groups in our society bear a fair share of the sacrifice. In fact, poor, homeless, and handicapped children and poor welfare and working families, who have already borne the brunt of inflation, are also bearing the brunt of the federal budget ax. How can it be fair

- to protect social security and Medicare benefits for the elderly which are indexed for cost of living, while proposing to cut back unindexed AFDC benefits for poor mothers and children? Each AFDC child has already paid 45¢ a day in the last four years to fight the war on inflation.

- to increase by 25 percent the fisheries resources of the U.S. Fish and Wildlife Service for baby sports fish while cutting back at least 20 percent the funding to implement the new Adoption Assistance and Child Welfare Act of 1980 which is seeking to help the nearly 500,000 children in costly foster care gain permanent families? Indeed, what President Reagan proposes for homeless children is worst. He throws their fate back to the states whose neglect of child welfare required the new federal reforms he would now gut through consolidation.

- to undermine through consolidation the targeted funding and hard earned protections of Title I of the Elementary and Secondary Education Act and the Education for All Handicapped Children's Act which are achieving positive results for disadvantaged and handicapped children while not cutting the untargeted, ineffective and discriminatory vocational education programs which we favor eliminating unless improved

- to cap urgently needed preventive health funds for children and pregnant mothers while not capping the far less needed construction program of the United States Corps of Engineers, or cutting the Forest Service's Construction and Land Acquisition Subsidies which build roads in national forests so that private firms who buy timber for resale can get the trees.

In our accompaning materials, we set forth in detail some of the budget cuts which must be avoided if truly needy families and children are not to be hurt. These include child welfare, Medicaid, Head Start, AFDC, food stamps, education, and child nutrition. We do not deal in this analysis with jobs and housing programs, some of which are equally essential. Our omission of these matters implies no judgment that they are unimportant.

Like Franklin Roosevelt, we believe "it is common sense to take a method and try it. If it fails, admit it frankly and try another." But we believe the converse is equally true; if a method has worked, stick with it while adjusting it to changing needs and times and target groups.

But this is not what the Reagan Administration is doing. Rather it is engaged in a wholesale attack on existing social programs for the poor and helpless in our society without examining specifically what is working and what is not; what can be improved and what cannot and the reasons why; who needs help and who does not; what will increase productivity and what will not. In the process they are dismantling the fundamental national commitment to groups too long excluded from American society and undermining our purported belief in equal justice for all.

Not all entitlements are the same or undesirable and not all consolidation or block grant proposals are good or cost-effective. Not all government is inefficient. Food stamps work. They keep families from going hungry. Not all private sector services are efficient. We should at least question why defense contractors increased the cost per plane by twice the inflation rate for the F-18, the E-2C, and the CH 53E in 1981 even though the ordering levels were not changed and why charges for simple 50 caliber cartridges were almost doubled although more than seven times as many as planned were ordered.

This is a time when all of us must be tough-minded about our priorities. We are trying to be. We recognize that we cannot afford to throw money thoughtlessly at any of our problems. But we also cannot afford to neglect problems that will undermine the productivity of coming generations and cost all of us as taxpayers far more to resolve now and in the future. That is what the Reagan Administration's proposed cuts in programs for the neediest families and children will do.

The Children's Defense Fund calls on the Administration and Congress to be fair in their budget cutting, to reject the deep cuts that will mar the lives of the neediest children and families and to resist hasty actions.

We are deeply concerned, as every American should be, by reports that the programs and policies established by more than a decade of Congressional deliberation and legislative activity could be overturned rapidly in just a few weeks. This could occur if the "reconciliation" process provided for in the Congressional Budget Act were used to mandate not only spending cuts, but also statutory changes, effective in the current fiscal year.

Such precipitous action could not possibly provide time for adequate and fair analysis of the effectiveness of the numerous programs the administration has proposed to "consolidate" and has targeted for major across-the-board spending cuts.

The Children's Defense Fund is a national public charity that seeks to provide an informed voice for children in the policy process.

FOREWORD

On March 10, 1981, President Reagan announced cutbacks of $48.6 billion in federal programs.

These cuts will hurt the truly needy. The safety net for the poor and the vulnerable is full of holes. The proposals for consolidation and block grants do not simply recommend straightforward cuts in federal spending, but also a massive restructuring which will dismantle many federal programs that for decades have been the cornerstone of the nation's commitment to minorities, to the disadvantaged, and to many thousands of working families struggling to be self-sufficient.

This is the Children's Defense Fund's response to the Administration proposals.

Included are seven critical priorities for children and families: programs that are successfully serving poor, homeless, and handicapped children and their families. They are designed to meet basic survival needs and ensure minimum opportunity for the most vulnerable children in our country. These are:

- The Adoption Assistance and Child Welfare Reform Act of 1980;
- AFDC Benefits for Needy Families and Children;
- Medicaid Preventive Health Programs for Children;
- Title I of the Elementary and Secondary Education Act;
- The Education for All Handicapped Children Act;
- Head Start and Title XX Day Care and Social Services;
- Food Stamps, Child Feeding, and WIC; and
- The Legal Services Program

For each we set out the facts and show how the proposed Reagan cuts and consolidations will harm the truly needy without saving money or improving efficiency and encouraging self-sufficiency in the long run. Indeed, we believe that if the Reagan proposals succeed, they will not only hurt children but increase taxpayers' burden to pay for costlier future remediation and continuing dependency.

In order to be constructive and encourage a more evenhanded approach to balancing the budget, we also outline some alternative cuts that the Reagan Administration and Congress might consider in order to avoid hurting the truly needy and undermining the preventive, cost-effective, successful programs for children described here. We believe some of our suggested cuts are feasible with strong leadership. Others, like capital gains and oil exploration costs and depreciation allowances, are generally viewed as not politically feasible. Still we include them and others here to remind us all of the inequities in our national welfare policies for the poor and young in contrast to those for the more well to do and powerful.

We are neither doctrinaire nor defensive liberals. It is not our purpose to defend big government or every federal categorical program, regulation, or civil rights compliance order, or claim that government has not been guilty of excesses, inefficiency, and failure to achieve the best bang for the buck. But we are equally unprepared to assume, having already worked for over a decade to achieve greater state and local government responsiveness to needy children, that all or most of the answer to our current problems lies in turning over all or most federal programs to state and local governments (which have grown far faster and are no more, and may be less, efficient than the federal bureaucracy) as the cure for all our current ills.[1]

We do not desire either to cling to the past or to discard those constructive lessons, programs, and approaches from which millions of Americans have gained. As a result of Great Society programs, 15 million Americans were removed from poverty; millions others escaped hunger thanks to food stamps and child feeding programs. We are proud of that. As a result of the civil rights laws of the '60s, thousands of black young people got an opportunity to go on to college, law, and medical schools. The number of black lawyers increased by 25 percent, black doctors by 48 percent, though the rate of progress has declined significantly in recent years. Some things *did* and *do* work, and they deserve to continue.

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[1] Most of the talk about "Big Government" today refers to the federal government. But if we compare civilian, non-defense employment and outlays in 1980 dollar terms, we see that it is state and local governments that have become "big government."

In 1965, one out of fifty persons in the labor force worked for the federal government; by 1980, only one in fifty-five did. In 1965 one out of every *nine* persons in the labor force worked for state and local government; by 1980, more than one in every *eight* did. This raises the question about who is watching the store, and with what efficiency.

In 1965, each state and local employee had to watch $27,000 of expenditure. By 1980, this had fallen slightly to $26,000. In 1965, each federal employee had to watch $138,000. By 1980, the expenditure per federal employee to be supervised had increased to over $230,000. We should also bear in mind that the frequent allegations of fraud and abuse, for example, in AFDC, Medicaid, and food stamps, are in programs already administered by states.

Although the pressure to act quickly and drastically is great, we nonetheless call on the Congress and American people to carefully deliberate before enacting the drastic Reagan Administration budget cuts and consolidation proposals of social programs for the poor. There are two critical national priorities hanging in the balance: the need to control the federal budget as one step (but only one step) in the effort to control inflation and the need to ensure that those groups most victimized by inflation and battered by poverty, racial discrimination, and handicap are not robbed of their chance for fair opportunity.

The current national rhetoric tells us that America is not safe enough or strong enough to work its purposes; that we are full of opportunity for everybody willing to grasp it; that there are a lot of freeloaders not willing to make the effort and that if we make them roll up their sleeves and go to work we can get the economy working again. It tells us that the race problem is solved and that poverty--when you count food stamps, housing supplements, and other in-kind benefits--has been eliminated; that the only demons on the horizon are inflation and the Soviet Union. This rhetoric leads to cries for indiscriminate increases in defense spending and reliance on an economic policy of putting more dollars into the hands of the affluent through untargeted tax cuts. And it assumes the rich will be wise enough to save or spend in ways that will get the economy going. These steps, it is claimed, when combined with efforts to balance the federal budget, should turn us around.

We hope so. But we also hope that until we are turned around, we will in the interim avoid scapegoating the poor and minorities who have already lost ground in the last decade as a result of a waning economy, growing inflation, unemployment and declining commitment to social programs for the poor. If we count food stamps, housing supplements, and other in-kind benefits, the incidence rates of poverty are, indeed, much reduced. But millions of American families of all races are still not able to meet their basic survival needs. Many of these families are working but cannot squeeze the cost of adequate nutrition, heating bills, and preventive health care out of their limited budgets.

The poverty rates among blacks, and particularly black children, remain astoundingly high. 22.7 percent of all blacks remain poor even after all non-medical benefits are counted as if they were money income. At least one in four black children remains poor. Counting only income, a black child born today faces nearly a one in two chance of being born poor. One in six of all children is poor, making them the poorest of any age group in America. If President Reagan's "Black Book" becomes policy they will become still poorer.

Our national budget is our national Rorschach test. We see in it what we are and believe in as a people. The Children's Defense Fund hopes that the Reagan Administration and Congress will remember that strong families and healthy children are as vital to preserving our national values and fulfilling our national promise as are good soldiers and more weapons.

CHILD WELFARE AND ADOPTION

WHAT IS THE ADOPTION ASSISTANCE AND CHILD WELFARE ACT OF 1980?

The Adoption Assistance and Child Welfare Act of 1980 (P.L. 96-272) passed the House by a vote of 401 to 2 after years of effort. It seeks to provide the federal leadership needed to produce long overdue reforms in the child welfare system which has encouraged family break-up and long term, expensive out-of-home care for children. The new law attempts to redirect federal fiscal incentives and encourage states to keep families together, get children out of the limbo of foster care and into permanent families through return home or adoption.[1]

The reforms uniquely link federal increases in a state's funding for child welfare, foster care, and adoption services to the efforts the state makes to reform anti-family procedures and ensure that:

- Children enter care only when necessary.
- Children who must enter care are placed in the most appropriate family-like setting.
- Children's placements are reviewed periodically to prevent them from staying in care any longer than needed and protect them from getting lost in the foster care system.
- Children are returned home or provided with new permanent families in a timely fashion.

The act also provides federal reimbursement to states for subsidies to assist with the adoption of children with special needs (such as mental, physical, or emotional handicaps).

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[1] These reforms revise the Title IV-B Child Welfare Services program, and combine the federal Foster Care program and new Adoption Assistance program in the Title IV-E program.

WHO BENEFITS FROM THE ADOPTION ASSISTANCE AND CHILD WELFARE ACT?

The act brings desperately needed help to the over half million homeless children adrift in this country and the thousands more who enter foster care each month. Many of these children have been needlessly wrenched from their families and left to linger in costly facilities that range from foster family homes to large child care institutions.

Many of these children have special needs stemming from physical, mental, or emotional handicaps; some are victims of parental abuse and neglect; others have been involved with the juvenile court. Approximately 60 percent of these children are white. Over 40 percent are preadolescents and adolescents. Fewer than 30 percent come from AFDC families.

In many states these children remain in care an average of five years, moving from foster home to foster home or institution to institution. They are neither returned home nor provided with new permanent families through adoption. Often, they are cruelly forgotten or written off as lost causes.

Terri and Cindy are just two of these homeless children:

> Terri is an alert, warm, engaging eight-year-old who is beginning to show signs of learning difficulties and aggressiveness. Terri is entering her third school and her fourth foster home in four years. She has not seen her own parents in four years but no one is making plans for her to ensure she has a permanent family.
>
> Cindy is a seven-year-old retarded child whose mother made numerous unsuccessful attempts to enroll her in the public school system in the southern rural community where they live. Cindy could already do many things for herself. Yet the school system argued it had no services for her, offered no alternatives, and told her mother to keep Cindy at home. Cindy and her mother were receiving public assistance but the local welfare officials did nothing to help Cindy's mother insist the schools provide an appropriate education. Instead, they wanted to place Cindy in a state institution for the mentally retarded. When Cindy's mother refused, the local department formally charged her with neglect. The Court upheld the charge and ordered that Cindy be placed in the state institution.

These children and thousands of others like them are victims of state and local child welfare systems across the country--the very systems the Reagan Administration currently proposes to give total responsibility for the children to without any procedural protections.

WHAT IMPACT WILL THE CURRENT REAGAN ADMINISTRATION PROPOSAL HAVE?

The Administration's current proposal guts the Adoption Assistance and Child Welfare Act of all its procedural reforms and fiscal incentives by placing it in a block grant with other social service programs and by reducing their combined budgets by 25 percent from FY '81 levels. In fact, states are free to eliminate the child welfare and adoption programs altogether. The federal leadership anticipated by the act and necessary to stop state neglect and abuse of children and families would be undermined as a result.

- Homeless children will get lost. Thousands of our country's most vulnerable children will continue to get lost in the foster care system because procedures--such as information systems, case plans, and case review systems--to identify the most needy children will no longer be required under the consolidation proposal.

- Children will continue to languish in foster and institutional care. The lack of federal leadership and revised fiscal incentives will mean business as usual at the state and local level. Funds will continue to be spent for costly out-of-home care because it is an easier and more familiar course for child welfare workers. Without incentives to develop service programs that specifically keep families together or reunite them, states are not apt to use dollars for the upfront costs of implementing these programs. And the long range cost-savings which result from the creation of preventive services will be lost. States will continue to deny permanent adoptive families to children (particularly those with severe handicaps who have been lingering in the foster care system for years) unless they are required to use federal dollars specifically for adoption assistance payments on these children's behalf.

- The truly needy will be hurt. The majority of children who come into contact with the child welfare system come from poor families. These poor families are at risk of the greatest harm--removal of their children, sometimes permanently--when no alternatives to foster care are available. Indeed, homeless children are America's most vulnerable and "truly needy" group of children.

- Taxpayers' money will continue to be misused. Homeless children cannot argue for their fair share of a block grant. Often their parents are not in a position to organize and advocate on their behalf. And individual caretakers and other professionals responsible for their care are constrained by the larger social services system of which they are a part. Thus, money meant to help homeless children and children threatened with removal from their families will likely be absorbed by existing programs, such as the presently underfunded Title XX Social Services program. Funds will not go toward the creation of preventive and reunification services and adoption subsidies as intended. Some children will remain in institutions at a cost to taxpayers of up to $36,000 per child per year. To date the vast majority of federal dollars for child welfare have been used to finance the high cost of this bed and board care.

If implemented as enacted, the Department of Health and Human Services estimates that the Adoption Assistance and Child Welfare Act will save over $4 billion in out-of-home care costs over the next five years. It will reduce the average number of children in care by 30 percent. These reductions will never be realized if the Act is gutted.

The Reagan Administration proclaims budgetary wisdom but ignores findings proving that public dollars used to keep families together now are more cost-effective in the long run than placing children in care:

- In 1977 the state of Washington passed legislation mandating crisis intervention services for "families in severe conflict." About 40 percent of these services were delivered to the entire family in their own home. Washington state officials say that the legislation and an increased emphasis on finding permanent homes for children saved the state about $2 million in a six-month period alone.

- Between October 1975 and November 1978 the State of Iowa's Department of Social Services ran, within a seven-county district, a group of preventive services for children already dispositioned to be placed in institutions. The services were delivered to families in their own homes. The department estimated their savings from these programs at $1,354,211.

THE REAGAN ADMINISTRATION'S CURRENT PROPOSAL IS ANTI-FAMILY.

It deliberately undermines a law designed to strengthen families which Congress enacted only last year. It doesn't even give the act a chance to work after hundreds of hours have been spent designing it so that it will. The hopes raised for families and children less than eight months ago, when the Adoption Assistance and Child Welfare Act was enacted, will be ruthlessly crushed now that these same families are told that a targeted investment on their behalf is not a "wise" investment.

The Reagan Administration's proposal makes no similar attempt to preserve families. In fact, when coupled with the effects of other current administration proposals to cut back food stamps, Aid to Families with Dependent Children, and Medicaid, the stability of more and more families will be threatened. It makes no sense in any terms--particularly not fiscal ones--when we all recognize the extreme pressures facing families today. And it resigns to oblivion the greater and greater number of children who will enter the limbo of foster care without any way of fighting back.

POVERTY

WHAT IS AID TO FAMILIES WITH DEPENDENT CHILDREN?

Aid to Families with Dependent Children (AFDC) is the only program explicitly aimed at protecting poor children by giving their families income support. It is critical to the survival and well being of millions of children who are the poorest of any age group in America. One in six children is poor in any one year. One in four children depends on AFDC at some point in his or her lifetime.

WHO BENEFITS FROM AFDC?

Sixty-six percent of all AFDC recipients (or over 7 million) are children: half are eight or younger and over 80 percent are 14 or younger. Very few children "grow up" on welfare. Only 2.4 percent of the people who receive welfare remain on the program for all of childhood. Each year about one-third of all AFDC families leave the program and are replaced by other families.

Families on welfare average the same number of children (2.2) as the rest of the population. Of ten mothers on AFDC, four are caring for preschool children; three are working, seeking work, or in training; one is disabled; and two are not currently seeking work. Of this latter group more than half is either over 45 or has never been employed.

CURRENT STATUS OF AFDC MOTHERS AND CHILDREN

Each state determines who is eligible for AFDC and sets benefit levels: these vary widely. In most states AFDC payments are intolerably low, failing to provide even a minimum level of decency. In Mississippi, the average payment for a child is 97¢ a day; in Texas, it is $1.18; in South Carolina, $1.22. There is not even one state where the combined basic benefits of AFDC and food stamps alone bring a family of four up to the official poverty line.

Unlike military, Congressional or government retirees and SSI recipients, poor welfare children and mothers get no automatic cost of living increases. In the last four years, each child on AFDC has lost one dollar of every eight he or she previously received. In effect, children have already paid 45¢ a day, or 12 percent of their total benefit to fight inflation. The average AFDC recipient now gets $3.10 a day or $93.13 a month (in April 1980 prices), a decrease from the comparable $3.55 a day or $106.55 a month paid in 1976, the last year under our previous Republican Administration. Despite these already low levels, six states have actually cut AFDC benefits over the past year and a half, and other states are currently considering reductions.

State AFDC payments have often failed to keep pace with inflation. In Texas, for example, the maximum AFDC payment for a family of four without other income has been $140 per month since 1975 (with a temporary bonus of $5 per month added in 1979). But the cost of living since 1975 has risen 54 percent. Thus $140 now buys less than half of what it bought in 1975.

States have also kept families off the AFDC rolls by not increasing eligibility levels over the years. In 1969, the monthly income of a family of four in Texas had to be less than $187 to qualify for AFDC. Today that requirement is the same, even though the real value of $187 is considerably less now than it was in 1969.

Despite national rhetoric about the importance of keeping families together, a child in Arkansas, or any of 24 other states, is denied any benefit at all--despite need--if he or she is living with both parents, even though those parents are unemployed and without income. The child's ineligibility for AFDC in these states also denies him access to Medicaid. Almost half the states also offer no benefits to a woman pregnant with her first child, and many others limit benefits severely. The well-being of these children are jeopardized at the most crucial time in their lives.

PROPOSED REAGAN CUTS WILL FURTHER HURT POOR CHILDREN AND MOTHERS

The Reagan Administration proposes cutting $1.2 billion in federal support for AFDC. Combined with state matching funds, this will lead to a combined loss of over $2.2 billion to our poorest mothers and children.

We believe that the cuts described below, damaging in themselves, are part of a larger strategy that will be devastating for poor families. This is the idea of converting AFDC into a block grant to the states. We believe the contemplated plan is to reduce the base federal reimbursement first and then convert the reduced base to a block grant. Even the current system does not require any minimum benefit for families; states decide that. Block grants would increase the pressure for further reduction. The cuts now proposed are just the beginning.

These two recommendations are among those the Administration proposes to reduce federal funding for AFDC:

1) The Administration proposes to permit the states to set up "workfare" requirements for AFDC recipients. Details of a workfare program have not been announced as yet. The basic principle of workfare, however, requires an AFDC recipient to work in a job or training program without pay. States would reportedly have broad discretion in designing the program, except that the workfare requirement

would not apply to mothers of children under three and mothers of children aged three to six for whom no child care is available.

Workfare creates a system of forced labor rather than jobs with reasonable wages and essential benefits. Workfare experiments have revealed serious problems in locating employers willing to participate in the program.

Welfare recipients want to work: the problem is for those who aren't caring for very young, pre-school children that they are either disabled or can't find jobs, especially those who are older or inexperienced.

Workfare compels AFDC recipients to take jobs in return for welfare rather than for real earnings. It does not help parents find the jobs necessary to enable them to eventually get off of welfare.

2) The Administration proposes to dismantle AFDC work incentives. While the Administration proposes to institute workfare, other proposals penalize the very recipients who are struggling to work and become self supporting but still need some assistance.

A. The amount of work-related expenses a parent can claim would be limited by setting a standard maximum deduction for these costs regardless of whether actual expenses incurred were greater. Currently a working parent can deduct all actual work-related expenses (such as transportation, child care, supplies, and taxes) from earned income before her AFDC eligibility and grant levels are calculated. The Administration proposes to allow working parents to deduct no more than $75 for work expenses and no more than $50/month per child for child care. These caps simply do not reflect the real cost of working: four years ago, the mean expenditure for center-based child care was $135/month -- almost three times what the Reagan Administration will allow for child care. These caps will have a profound effect on parents trying to work. And, in fact, may force many parents to quit work because they can no longer pay for adequate child care for their children.

B. The Administration would gut income disregards which now encourage AFDC parents to work. Currently, AFDC recipients are permitted to exclude their work-related expenses and $30 plus one-third of the remainder of their earned income in calculating the amount of their welfare payment. This disregard is designed to encourage AFDC recipients to work: it ensures that a parent's combined income from a job and a partial AFDC grant is always higher than a parent's AFDC income would be if she did not work.

The Administration proposes to apply the one-third deduction to net, not gross, income, and to eliminate the $30 and one-third deduction completely after a parent has been working for four months. These proposals will dramatically decrease work incentives. Because of the change from gross to net income, a working parent with two children in child care will lose $58.33 in benefits each month.

Today, the one-third of their earnings that poor people may keep is calculated by dividing gross earned income by three. After that calculation they also get credit for their actual work expenses. Under the proposed system, they will be able to keep one-third of what is left of their earnings after those earnings are reduced by the standard work expense caps ($75 for work expenses and $50 per child for child care). The difference between the two systems is thus one-third of the family's work expenses. If a family is allowed to claim actual work expenses rather than the standard caps, the difference will be even greater.

Further, the four-month limitation on the $30 and one-third deductions means that a working mother's AFDC grant will be reduced dollar-for-dollar for all her earnings. She will lose her incentive to work, since she will bring home no more by working than she would receive by staying at home and collecting a full welfare grant.

The Reagan Administration proposes over 16 additional cuts in AFDC. Some of these include:

- reducing AFDC grants by the amount included in the AFDC grant for food to reflect availability of Food Stamps. The details of this propcsal have not been revealed. However, it is puzzling since the overlap of AFDC and Food Stamps has already been accounted for by Food Stamp eligibility guidelines which assume that 30 percent of a family's AFDC grant is available for food, and reduces the family's Food Stamps accordingly.

- making ineligible working parents who made more than 150 percent of a state's AFDC standard of need. In 41 states, this proposal would cut off "truly needy" families of four whose income was greater than 150 percent of the standard but still substantially below the poverty level.

- considering a stepparent's income as automatically available to a stepchild, whether or not the stepparent actually supports the child or has a legal obligation to do so. The child would thus lose his or her AFDC benefits if the stepparent's income exceeded AFDC guidelines.

- eliminating all grants of less than $10 per month.
- lowering the amount of assets (such as furniture, household goods, and personal effects) a family can keep to $1,000, rather than ~~$1,500~~. $2,000.
- assuming that families with earned income receive monthly Earned Income Tax Credit (EITC) payments, with reductions in a family's monthly AFDC grant accordingly -- whether or not the family actually receives the EITC payment.

DO THESE CUTS AVOID HURTING THE TRULY NEEDY?

No. AFDC benefit levels for the nation are already low -- having declined by 12 percent since 1976. In almost one-fourth of the states, the current maximum AFDC payment to a family of three is lower than the amount needed for just one person who qualifies for Supplemental Security Income.

Even the working poor who are eligible for AFDC -- those hardest hit by the cap on work-related expense deductions and the elimination of work incentives -- are desperately poor. In order to apply and receive even a partial AFDC grant, a family of four in San Antonio, Texas must have a net earned income of less than $187 per month; and in Jackson, Mississippi, $252 per month.

ARE THE ADMINISTRATION'S AFDC PROPOSALS PRO-FAMILY?

No. Under the present AFDC regulations, if a welfare parent marries and her spouse is able to support her, she will generally lose her AFDC eligibility. But if her new husband is not legally responsible to support her children and does not actually support them, the children can keep their AFDC benefits. Thus, a stepparent can choose to marry and support his spouse without also being compelled to support children he is not legally responsible for and cannot afford to support.

Under the new system, loss of the children's AFDC benefits would place early strains on a recent marriage, and could result in its breakup. It would increase AFDC's version of the marriage tax: a welfare parent and her partner could cohabit without any loss of AFDC benefits to the parent or to the children who are not related to the live-in partner, while marriage could result in total loss of AFDC benefits to the entire family -- dissuading a parent from remarrying at all.

WILL THESE AFDCE REDUCTIONS ENCOURAGE SELF-SUFFICIENCY?

No.

Elimination of the $30 and one-third income disregard after four months means that working families are no better off than if they quit working and accepted a full welfare grant. For those families whose work expenses exceed the proposed cap, the fact that they have earned income may mean that they actually bring home less money by working than they would if they chose to stay home. Working families who still meet poverty guidelines and who still desperately need assistance will be cut off.

CHILD HEALTH

WHAT IS MEDICAID?

In 1965, after extensive hearings and investigations into the health status of the nation's poorest citizens, Congress enacted the Medicaid program. Medicaid guarantees that America's most destitute families have a way to purchase such essential health care services as physical checkups, medical treatment, dental care, hospitalization, prenatal care and necessary medications.

WHO ARE THE CHILDREN WHO BENEFIT FROM MEDICAID?

Forty-five percent, or almost 13 million, of the total Medicaid-eligible population are children. They are among the poorest and most afflicted of all children in America:

- o the child in Washington State with cystic fibrosis, whose mother and father work to bring home a combined income of less than $5,000 per year,
- o the pregnant woman in Mississippi who receives $120.00 per month to care for herself and her other three children,
- o the foster care child in New York who has been in institutions since infancy and suffers from a congenital heart ailment,
- o the two children in Tennessee who suffer from asthma, allergies and many other medical and dental problems whose mother receives $140 per month to support the three of them.

For most of these children, and millions more like them, their only hope for adequate health care is Medicaid.

Because of states' past failure to adequately implement the children's part of Medicaid, urgent child health needs still go unmet. 1 out of 7 American children under 18 years of age (or 9 million children) has no regular source of primary health care. 1 in 5 poor and minority children has not seen a doctor at all in two years. 1 out of 3 children (or over 18 million) has never seen a dentist. Millions of American women lack prenatal care despite high correlations between lack of prenatal care and infant mortality and illness. 7 out of 10 mothers under age 15 get no prenatal care in the first three months of pregnancy; one-fifth get no prenatal care at all. These gaps in preventive health care hurt children and taxpayers who pick up the tab in costlier emergency and hospital care.

WHAT IS BEING PROPOSED BY THE REAGAN ADMINISTRATION?

The Reagan Administration proposes to end the Medicaid entitlement and to cap Medicaid spending. In FY '82 federal funds will be cut by a minimum of $1 billion.

WHAT WOULD BE THE IMPACT OF THESE PROPOSALS ON CHILDREN'S MEDICAID BENEFITS?

By limiting the amount of federal Medicaid funding to levels far below what is needed for states to maintain their current levels of services, the Reagan Administration's proposals will result in severe Medicaid cutbacks by the states. Because of past budget pressures, most states have already turned Medicaid into a bare-bones program. A further federal budget squeeze will force states to gut their programs. Under the guise of "flexibility," the states will have the responsibility to decide how to distribute pain among the poor.

From past state practices, we can predict many types of state cutbacks that will result if the Administration's proposals pass:

States may eliminate millions of already underserved eligible mothers and children from their programs. States have the option of providing Medicaid to many types of impoverished pregnant women and children, in addition to those who qualify because they receive welfare grants. Thirty-four states presently cover some or all of these mothers and nearly 1 million children. If the federal Medicaid budget is cut, these "optional" women and children--for example, first-time pregnant women and children in a two-parent poor family--may well be among the first to lose their Medicaid benefits.

States will sharply reduce or altogether eliminate essential services from their programs.

The federal budget cuts will prevent states from maintaining their current commitment to certain services. Even the Stockman "Black Book" concedes this will happen. States have already faced budget crises in Medicaid. They have been forced to cut or reduce the very health services that keep children well and correct health problems before they become serious and thus more costly:

- An increasing number of states will require that recipients share the costs of such vital services as prescription medications and physician visits.
- States will limit the number of physician, clinical, and hospital visits that recipients can receive, even if additional visits are essential.
- States will eliminate certain services entirely from their programs, even if they are necessary to keep children out of hospitals.

WILL THE ADMINISTRATION'S PROPOSAL SAVE MONEY?

No. Forcing states to curtail the availability of essential preventive health services now is the epitome of penny-wise and pound-foolish management and assures escalating health care costs later on:

- It costs the state of Alabama approximately $1,100 to provide a pregnant woman with adequate prenatal care. It costs $20,000 per year, however, for Alabama to pay the institutional costs of caring for a severely handicapped child whose disabilities resulted from his mother's lack of pregnancy-related care.
- Children can get the full preventive health care they need each year for about $325: less than the cost of a 2-day hospital stay.
- Children can get screened for health problems for about $20: less than a Senator would pay for a good dinner in Washington.
- In North Dakota, total Medicaid expenditures per child were 36-44% lower for children who were screened for health problems than for those who had not received timely health exams. Expenditures for inpatient hospital services were 47-58% lower for those who had been screened.
- A Texas study which examined the costs and benefits of preventive care which many children now get (vision screening, hearing screening, preventive dental care, and identification of congenital malformations) showed that for each state dollar spent, more than $8 was saved in the longterm costs and in the income loss avoided.

Moreover, while federal expenditures for Medicaid may decrease, states will be forced to make up the difference out of their own coffers to provide key health services for their poorest citizens. For example, in 1980, the state of Florida ended up spending $42 million in state and local funds to provide health care to financially needy children because they did not invest $31 million to provide Medicaid to this same group. As federal funds for preventive health services disappear, they will be more than replaced by state and county tax dollars spent on far more costly care.

DO THESE CUTS AVOID HURTING THE TRULY NEEDY?

No. All Medicaid recipients are among the most needy in our society. Of the 23 million persons eligible for Medicaid, 18 million are dependent children, or aged, blind or disabled adults. To qualify financially for Medicaid, families must be indigent, with incomes at or below their states' welfare payment levels, which range from $1,600 to $6,000 a year for a family of four.

IS THE ADMINISTRATION'S PROPOSAL PRO-FAMILY?

No. The proposal will likely force states to reduce their programs by eliminating Medicaid coverage for married pregnant women and children from two-parent families. The cutbacks promise to do profound damage to poor working families who are struggling to stay together and survive. And since children represent an average of only about 17% of Medicaid's expenditures, they are without the political power to compete for their fair share as states begin to wield the budget ax.

WILL THESE PROGRAM REDUCTIONS ENCOURAGE SELF-SUFFICIENCY?

No. Through Medicaid, millions of families can now purchase care that keeps their children healthy and productive. A Tennessee mother can buy eyeglasses, allergy shots, and other needed health services that allow her two children to remain healthy and in school so that she can work. A pregnant mother in Mississippi receives adequate prenatal care for herself and her unborn child so that both have the chance to be healthy and productive.

The Reagan plan seriously threatens poor, working, two-parent families who survive partly because Medicaid helps supply health care for their children. Withdrawal of health care may force parents to go onto welfare so that they can qualify for the Medicaid their children need.

WILL THE ADMINISTRATION'S CUTS IMPROVE STATES' ADMINISTRATION OF MEDICAID?

No. The Administration's proposed program cuts have not been tailored to achieve better program administration. The plan simply places severe limitations on the availability of federal funds to meet current state commitments.

EDUCATION

THE PROBLEMS

Over 1 million school-aged children are not enrolled in school. They are disproportionately Black, Hispanic, Native American, or handicapped. Many are out of school not by choice but because they have been excluded or failed by the state and local education systems.

Others in school are not learning. Thousands of white and minority youths are unable to read, write, or compute well enough to get or hold a job. In some of the nation's largest school districts, one young person drops out of school for every one who graduates.

There are already over 4 million high school dropouts between the ages of 16 and 24. High school dropouts are twice as likely to be unemployed as high school graduates. Youths, particularly minority youths, who drop out of school before completing junior or senior high school find themselves two to three times more likely to remain unemployed for long periods of time. The underachievement and educational victimization of minorities mirror high unemployment, and mean excessive welfare, hospitalization, and institutional care costs for the future.

Over 4.1 million school-aged children are handicapped and require some kind of special education. Of these children some 220,000 are still waiting to be evaluated and some 120,000 already evaluated are waiting for proper placements. Today in New York City alone, 15,000 handicapped children are on a waiting list for evaluation and special education placement.

TITLE I OF ESEA

In 1965, Congress enacted the Elementary and Secondary Education Act. Title I of ESEA was specifically designed to help low-income, educationally disadvantaged children catch up with their age cohorts in reading and mathematics skills. During the initial years of Title I, the program operated much like a block grant and children were not benefiting. The Office of Education was excessively slow in promulgating and implementing regulations and in 1969, CDF and the NAACP Legal Defense Fund documented the abuse of state and local educational agencies in providing educational services to disadvantaged children.[1]

In 1981, some 5.9 million disadvantaged students (low-income and educationally deprived) participate in Title I funded compensatory education programs in 90 percent of the nation's school districts. An average of $450 a year is expended per pupil. Some $2.822 billion is allocated for grants to LEAs in the FY 81 continuing resolution.

Recent evaluations of the program indicate that Title I students are achieving measured gains in reading and mathematics.[2] However, due to a lack of full funding, only 25 percent of the eligible children are participating in the program currently. Participating children are concentrated in the lower grades of elementary schools, with fewer than 20 percent of the participating children at the junior and senior high school levels.

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[1] Educational agencies used Title I funds to finance the construction of facilities, swimming pools, cafeterias, school buses, even vocational education buildings. See Title I of ESEA: Is It Helping Poor Children? a Report of the Washington Research Project (forerunner of the Children's Defense Fund) and the NAACP Legal Defense and Educational Fund, Washington, D.C.: December 1969.

[2] The Sustaining Effects Study: An Interim Report Carter Launor, System Development Corporation (Santa Monica, CA: October 1980).

WHAT DOES THE REAGAN ADMINISTRATION PROPOSE?

The Reagan Administration wants to consolidate some 50 education programs, including Title I and most other elementary and secondary education programs, into two block grants: one administered by state educational agencies; the other flowing directly to local educational agencies.* The federal programs that are the very backbone of support to poor, educationally deprived, handicapped, and limited English speaking children are lumped together and stripped of provisions that ensure targeting, procedural safeguards, individualized programming, parent involvement, nonsupplanting of state and local resources, and civil rights enforcement. State and local educational agencies are relieved of all legislative and regulatory prescription and allowed to set their own priorities as to the amounts and manner, IF AT ALL, programs for vulnerable populations of children are to be funded and implemented. In addition, the budget authority for the two block grants is only seventy-five percent of the FY 81 appropriated total of the respective categorical programs that are combined. The proposed savings in budget authority for FY 82 is projected at $2.6 billion. Significant savings in outlays do not begin until FY 83 due to the forward funding requirement of most education programs. However, rescissions (cancellation of spending already allocated) in outlays for FY 81 are equally devastating at 25 percent of the 1980 level.

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* The local block grant includes four large programs: Grants for the Disadvantaged (Title I, ESEA), Education for the Handicapped (P.L. 94-142), Emergency School Aid / Desegregation (Title VI, ESEA), and Adult Education (Adult Education Act).

WHAT WOULD BE THE IMPACT OF THE REAGAN ADMINISTRATION'S PROPOSALS ON TITLE I?

Cutting the Title I program by 25 percent would eliminate approximately 1.5 million children from the program and severely affect resources available to urban depressed school districts where the need for Title I funds is most crucial. However, given the block grant proposal, it is impossible to determine the exact scope of such a cut-back -- since school districts would be relieved of all federal responsibility to spend any of the funds on compensatory education. And, even should school districts choose to provide compensatory programs, there is no guarantee that resources and services would go to the poorest schools or to the most needy children within those schools.

The funding cut is further aggravated by the loss of all requirements of maintenance of effort on the part of state and local educational agencies and provisions that presently require school districts to fund Title I schools on a favorable comparative level to other schools within the district which do not receive federal funds. Thus, it is very likely, that given the present funding shortfalls at local and state levels, block grant funds would partially or completely supplant state and local effort.[3]

Other provisions of current law that help ensure a quality program for eligible children, such as needs assessment, evaluation, parent involvement, access to information,and complaint procedures,would be eliminated as well. Thus, it is possible that disadvantaged children would be no better off with federal aid, in block grant form, than in the absence of any federal role.

DO THESE CUTS AVOID HURTING THE TRULY NEEDY?

No. Cutting the Title I program by twenty-five percent would probably sound the death knell for the Concentration Grants program which targets extra compensatory education services on very depressed inner cities and rural areas.

In the absence of legislative and regulatory prescription, school districts would perform, as documented in the early years of the program (1965-69),[4] at a less than exemplary level. The Title I program has always insisted that the children with greatest need should be served first. Under a block grant approach, school districts, should they provide compensatory education programs at all, would be tempted to get the biggest bang for their bucks and concentrate on the marginally educationally disadvantaged.

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[3] Given the Reagan Administration's stance on allowing "flexibility," abuse in the use of block grants for non-instructional purposes would be common. One school superintendent in Maine, for instance, has stated that if Title I funds came "unrestricted," he would use the money on snow plows and not children.

[4] Washington Research Project (CDF) and NAACP Legal Defense and Educational Fund, Op Cit.

WHAT ARE THE CONSEQUENCES IN FUTURE YEARS IF TITLE I IS CONSOLIDATED INTO A BLOCK GRANT AND CUT DRASTICALLY?

Millions of additional disadvantaged students would be denied compensatory education programs at critical stages in their educational development. Children who get further and further behind their age cohorts in basic skills tend to become very frustrated and often discipline problems, until they eventually drop out of school.

There are already over 4 million high school dropouts between the ages of 16 and 24. High school dropouts are twice as likely to be unemployed as high school graduates. The underachievement and educational victimization of minorities mirror high unemployment, and mean excessive welfare, hospitalization, and institutional care costs for the future.

EDUCATION FOR ALL HANDICAPPED CHILDREN ACT (P.L. 94-142)

Perhaps the most ambitious of any federal education program is the Education for All Handicapped Children Act, P.L. 94-142. This program is unlike Title I, however, in that it guarantees under federal law, the right to a free appropriate education for every handicapped child. Specifically, the EHA requires:

a) all handicapped children, regardless of the severity of their handicapping conditions, be provided an appropriate public education, including special education and related services;

b) this education be provided at no cost to the parents;

c) each handicapped child be educated in the most normal and least restrictive environment appropriate to the child's needs;

d) the needs of each child be individually evaluated and an individualized educational program developed for the child;

e) the child's parents be involved in the development of the child's education program and provided procedural safeguards to challenge inappropriate educational decisions.

P.L. 94-142 is allocated $922,000,000 in the FY 81 continuing resolution. Even at this level it is grossly underfunded.

Part of the problem in implementing the law has been the lack of resources at the state and local levels. Although required to provide special services for handicapped children, school districts have balked when federal funds were not substantial enough to pick up more costs. The state educational agencies have been derelict in their duties in monitoring compliance of local educational agencies with the implementation of the law and reluctant to reimburse local agencies for the excess cost of educating handicapped children.

It has been only seven years since Congress mandated specific educational rights for handicapped children (P.L. 93-380) and only five years since enactment of the comprehensive P.L. 94-142. It is quite predictable that there are implementation pains at the local level. However, given adequate resources and proper technical assistance from state and federal agencies, school districts can be expected in time to improve their records and meet the needs of handicapped children if the present law is retained.

WHAT DOES THE REAGAN ADMINISTRATION PROPOSE TO DO TO HANDICAPPED CHILDREN?

The Reagan Administration plans to consolidate P.L. 94-142 into the local block grant and cut funding by twenty-five percent. The entitlement to a free appropriate education in the least restrictive environment would in effect be eliminated.

WHAT WOULD BE THE IMPACT OF THE REAGAN ADMINISTRATION'S PROPOSAL ON P.L. 94-142 AND HANDICAPPED CHILDREN?

The impact would be devastating. Without the specific provisions of P.L. 94-142, we would find, once again, children like:

o James, age 14, who had serious learning problems from the time he first enrolled in school. After two years in the first grade and three in the second, James was told not to return to school because he was "too retarded." James was never evaluated to determine the cause of his learning difficulties and, despite the recommendations of his classroom teachers, was never provided with special education services of any kind.

o Jacqueline, 11 years old, who needed assistance walking. Although she lived next door to the elementary school, her school district had never evaluated her needs or provided her with any educational services whatsoever. In May 1974, Jacqueline's mother filed a petition with the superintendent of schools, requesting adequate educational services for Jacqueline. She never received a response.

o Julius, age 15, who had a speech difficulty and severely impaired vision in one eye. In the spring of 1970 he was placed in a class for retarded children solely on the basis of an outdated IQ test. Julius remained in that class, located in a trailer outside of the regular school building, for four years. In August 1974, he was transferred to a regular sixth grade class because his district had no special programs for children his age.

School districts would be free to pick and choose which handicapped children, if any, receive a special education. Thousands and thousands of children can be expected to be denied appropriate services and a right to education and training.

IS THE REAGAN ADMINISTRATION'S PROPOSAL PRO-FAMILY?

No. The present handicapped law, P.L. 94-142, maximizes parental involvement in the education of children. Parents, teachers and school administrators are partners in assessing the specific educational needs of the handicapped child and in developint the provisions in the child's Individualized Education Program (I.E.P.).

Under P.L. 94-142, parents have the right to hold schools accountable for providing the educational services agreed upon. The Reagan Administration would abolish all these pro-family provisions.

THE REAGAN EDUCATION BUDGET OVERALL

o Children Bear the Brunt

The Reagan education budget and its proposed block grants have severe impact on poor, disadvantaged, handicapped, limited English speaking and racially isolated children and their families.

Budgetary cuts of twenty-five percent are awesome in themselves, but the stripping away of all targeting, procedural safeguards, parent involvement, maintenance of state and local effort, and civil rights provisions, in effect, completely nullifies sixteen years of federal legislation designed to remedy deficiencies of will and/or ability at the state level to provide equal educational opportunity for all children.

o It Is Anti-Family

The Reagan Administration says that parents should have more say in the education of their children. That's why, it says, it will endorse tuition tax credits for private school attendance. The administration -- by proposing block grants and drastic budget cuts for public education, and tuition tax credits for private education -- is practicing a reverse Robin Hood mentality. Poor parents of disadvantaged and handicapped children would lose their rights to hold schools accountable under existing provisions, while middle-income and upper-income parents would escape the lowering of academic quality in the public schools, accelerated by the 25 percent cut in federal funds and the elimination of all procedural safeguards, by enrolling their children in private schools that can avoid, legally, educating disadvantaged and handicapped children.

- It Is Not Cost-Effective

Severe budget cuts in education and the removal of all categorical programs would mean that children whose education required greater than average costs -- educationally disadvantaged children, handicapped children, and limited English speaking children -- would tend to fall by the wayside.

The best evidence clearly demonstrates that with appropriate early intervention some handicapping conditions are reversible, some susceptible to a high degree of amelioration and, in some instances, the multiplying consequences of a disability can be sharply curtailed. Thus, to provide services as early as possible to the very young handicapped child and his or her family decreases the need for later costly remedial and maintenance programs while increasing the probability of self-sufficiency. Failure to provide such services is also a denial of equal educational rights to children.

THE FEDERAL ROLE IN EDUCATION

Much is touted these days about the Tenth Amendment and education being the responsibility of state governments. Yet, our educational system has actually benefited from a decentralized, shared governance at the local, state, and federal levels. The limited, but critical, federal role in education came about because of the failure of state and local governments to educate all of our children to their full potential.

The Constitution states that the federal government shall provide for the national welfare. Educating all of our children, which can only be guaranteed with retention of a federal presence in education policy, funding, and governance, is clearly in the national welfare.

HEAD START

WHAT IS HEAD START?

Project Head Start is a federally funded child development program for three- to five-year-old children from low-income families. Head Start is unique in its:

- o parent involvement
- o community sponsorship
- o breadth of services.

Since 1965 Head Start has provided medical, dental, nutrition, educational, social, and mental health services to 7.5 million children and their families. Head Start's average cost is $1,900 per child per year.

WHO BENEFITS FROM HEAD START?

Head Start now serves 374,000 children--or only 20 percent of those who are eligible. At least 90 percent of the children enrolled in Head Start are from families with incomes below $ 7,450 per year for a non-farm family of four; nearly 12 percent of all Head Start children are handicapped. (These include children with orthopedic handicaps; learning disabilities; visual, hearing, language, speech and health impairments; and children who are mentally retarded or emotionally disturbed.) Some 61 percent of Head Start's children are Black or Hispanic; 65 percent live in urban areas.

HEAD START WORKS

Head Start improves children's health.

- o Head Start improves children's nutrition and reduces the prevalence of anemia.
- o By the end of 1978-79, 82 percent of all Head Start children were medically screened, 90 percent of those identified as needing further treatment received it.

- o By the end of 1978-79, 67 percent of all Head Start children had received dental examinations; 88 percent of those who needed further treatment got it.
- o The immunization rate for Head Start children is 20 percent higher than the national average for poor children.

Head Start provides children with a better chance in school.

- o A follow-up of 820 Head Start children showed gains in school performance lasting as long as 13 years.
- o Children who have participated in Head Start and other preschool intervention programs are less likely to require expensive, special education and more likely to be in the correct grade level for their age.
- o On fourth-grade standarized tests, children who have been in Head Start or preschool scored significantly higher in mathematics achievement than those in the control group and tended to score higher in reading as well.
- o Head Start's benefits outweigh its costs by 236 percent; the benefits include increased projected lifetime earnings for Head Start children and the absence of the high costs of special educational services often associated with non-Head Start children.

Head Start involves parents in their children's education and development

- o For every 15 children enrolled in Head Start, 10 parents provide volunteer services to the program.

- Head Start parents involve their children more in household tasks, read to their children more, and show more interest in their children's reading and writing skills than non-Head Start parents.
- In a survey of Head Start graduates' parents, 82 percent reported going to their children's elementary school to meet and talk with their child's teacher.

Head Start increases the self-sufficiency of parents.

- Some 12,000 Head Start parents have received college training for credit through the Head Start program. Over 1,000 Head Start parents have A.A. or B.A. degrees.
- One-third of the trainees for Child Development Associate (child care certificate) are parents of current or former Head Start children.
- One-third of all Head Start staff are parents of current or former Head Start students.

WHAT THE REAGAN ADMINISTRATION IS PROPOSING

The Reagan Administration has recognized Head Start's success and recommended a $950 million appropriations for the program in FY 82, a $130 million increase over the FY 81 level.

WHAT IS THE PROPOSAL'S IMPACT ON CHILDREN?

Because funding for Head Start has not kept pace with inflation--Head Start has had only one significant funding increase in the past 12 years--local centers have been forced to cut corners severely in their efforts to preserve a quality program. The vast majority of the Administration's proposed increase will be used to offset these past effects of inflation on program quality. None of the funds will be used to expand the program, which will continue to be able to serve only 20 percent of the eligible children.

Despite the Reagan Administration's promise not to harm the Head Start program, cuts proposed by the Administration in other areas will seriously affect Head Start centers.

Head Start does not operate in a vacuum. The Office of Management and Budget projects that in FY 82 Head Start will receive:

- $79.1 million from the United States Department of Agriculture for child nutrition programs;
- $26.9 million from the Comprehensive Employment and Training Act (CETA) to hire Head Start staff;
- $12.1 million from Title XX social services.

The Reagan Administration has proposed extreme cuts in each of these three areas as well as in child welfare, food stamps, low-income energy assistance and Medicaid--all programs that Head Start's low-income families depend on for survival.

It is critically important to thousands of poor children and their families that the Reagan administration has recognized the success of Head Start in its budget proposals. What is needed is to look at the other programs that affect children with the same concern for what works and what doesn't; what helps the needy and what doesn't. Across the board cuts of consolidated programs evade this process--and will hurt the poorest, most vulnerable children.

FOOD STAMPS

In the late-1960s, the Field Foundation found widespread hunger and malnutrition among the poor of the United States. A decade later, when the Foundation returned to communities it had visited, it found the health and well-being of poor families greatly improved. It pointed to the Food Stamp program as the key factor in this significant change.

WHO BENEFITS FROM FOOD STAMPS?

Food Stamps is the only income maintenance program that is not limited to specific categories of people and provides coverage based on need alone.

The 22 million Food Stamp recipients are among the poorest people in America. The Agriculture Department's latest survey of recipients, taken in the fall of 1979, showed that:

- They have very low incomes. The average annual gross income for a food stamps household was $3,900; more than half of those households had gross incomes of less than $3,600 a year.
- Many are dependent on welfare programs. Forty-two percent of food stamp recipients also received public assistance benefits such as Aid to Families with Dependent Children.
- They have few assets. Three-fifths of recipient households had no liquid assets at all.
- They are mostly very young or very old. Children under 17 made up 53 percent of recipients; 12 percent were elderly or disabled persons. Thirteen percent of recipients were single parents with children.

FOOD STAMP RECIPIENTS HAVE A SPARTAN DIET

Food stamp benefit levels are based on the "Thrifty Food Plan," the lowest priced of the Agriculture Department's four family food plans. Sample menus prepared by the department for the low-cost plan rely heavily on starches with relatively small quantities of meat, fruits, and vegetables.

Recent Department of Agriculture surveys found that 5 out of 6 families buying food at the Thrifty Plan cost level do not get 100 percent of the Recommended Daily Allowance for nutrients. Most food stamp families spend additional amounts on food - beyond the cost of the Thrifty Food Plan - in order to get by.

WHAT IS BEING PROPOSED BY THE REAGAN ADMINISTRATION?

The Reagan Administration currently proposes cutting about $2 billion from the Food Stamp program for FY '82. The proposed major cuts include:

		ESTIMATED SAVINGS
1.	a school lunch/food stamp proposal, which would deduct school lunches from a family's food stamp allotment where children have access to a school lunch program	$265 million in 1982 due to part-year implementation, $680 million in all future years
2.	eliminating the inflation adjustment on the food stamp maximum shelter deduction and on the standard deduction	$130 million
3.	reducing gross income limits to 130 percent of poverty, eliminating families above those levels	up to $500 million
4.	retrospective accounting, determining a family's eligibility for food stamps based on its average income over a prior period before the family applied for the program	uncertain

Of all the food stamp proposals, the school lunch/food stamp proposal is the most regressive, cutting food monies for many of the poorest households very severely.

The Food Stamp Program must be considered as an income maintenance program as well as a nutrition program. It is part of the overall support structure for poor families. Many AFDC families have extremely low incomes (as low as $1,680 a year from AFDC for a family of four in Texas with no other income. - As most states have frozen or cut AFDC benefits, these families have fallen further and further behind. To make additional deep cuts in the food stamp benefits these families receive, by counting school lunches, is extremely harsh. While cutting the monies available for food, the Administration also intends to reduce poor families' incomes through proposals to cut Medicaid, fuel assistance, social services such as child care, and income maintenance.

Because food stamp benefits now average only 44¢ per person per meal, it is not correct to view the free school lunch as duplicative by providing a fourth meal. Families cannot get three solid meals a day from the Thrifty Food Plan. In fact, when the Department of Agriculture adopted the Thrifty Food Plan in 1975, amidst substantial criticism that it was inadequate, the Ford Administration cited the availability of free school lunches as a reason for its decision to adopt the rather spartan Thrifty Food Plan.

The school lunch/food stamp proposal has other serious flaws. It assumes that a child enrolled in a school with a lunch program always receives a lunch. Thus food stamp benefits are lowered even while a child is sick at home. In addition, it is extremely complex to administer and is vigorously opposed by nearly all state administrators. It flies directly in the face of the Administration's stated intention of streamlining and simplifying programs.

Food stamp households are currently allowed a monthly standard deduction of $85 per household. They are also allowed a deduction for the amount by which their shelter costs exceed 50 percent of their net incomes, up to a maximum of $115 a month. The standard deduction and the $115 maximum of the shelter deduction are currently adjusted once a year to keep pace with inflation.

The Administration proposal will end the annual inflation adjustment and freeze the deductions at their current levels, despite the fact that heating bills are expected to rise sharply in coming months. As a result, many households with increased shelter costs -- and decreased funds available for purchasing food -- would be allowed no increase in their shelter deduction and no adjustment in food stamp benefits to reflect their loss of disposable income. This cut would hurt all food stamp households, including the poorest.

The retrospective accounting proposal makes families wait for food stamps during a period when they really need them. If a family is in need due to a change in circumstances -- such as being laid off, having a husband desert a family, or having an ex-spouse cut off child support payments -- it would have to wait up to three months to begin receiving food stamps. Many of these households have limited or no income. This will cause serious hardship.

Clearly the food stamp proposals hit the poorest families very hard. And poor children, one of the most nutritionally vulnerable groups in the population, will disproportionately suffer.

WIC

WHAT IS WIC?

In 1972, Congress created the Special Supplemental Food Program for Women, Infants and Children because studies showed that when women suffer from malnutrition during pregnancy, they and their unborn children are more likely to have health and nutrition problems. The WIC Program provides nutritious foods to supplement the regular diets of pregnant women, new mothers, infants and children under age five who meet income standards and who qualify as "nutritionally at risk," based on a medical assessment. Participants also receive nutrition education and health services. To be certified as eligible, applicants must be both low income and at nutritional risk.

WHAT IS BEING PROPOSED IN THE REAGAN ADMINISTRATION?

The Administration has proposed a 30 percent cut -- or about $300 million -- in the WIC Program. The program currently serves 2.2 million women, infants and children; the funding level is slightly under $1 billion. Many counties in the U.S. have no program, while there are long waiting lists in many areas that do have a program. The Reagan proposal would reduce the number of participants by 700,000.

WILL THE ADMINISTRATION'S PROPOSAL SAVE MONEY?

An impressive body of medical evidence supports the cost-effectiveness of the WIC program. A series of studies show that WIC results in significant reductions in the incidence of low birth weight infants, reduces anemia and infant mortality rates.

A particularly strong finding is that WIC results in marked reductions in the incidence of low birth weight infants. A study conducted at the Harvard School of Public Health found that each $1 spent on the prenatal component of the WIC program results in a savings of $3 in hospitalization costs, due to the reduced number of low birth weight infants needing extended hospital care.

Various studies have also linked WIC with reduced infant death rates. A recent study in Massachusetts found that WIC significantly reduces neonatal mortality. The U.S. ranks only 12th in the world in infant mortality rates, behind most other industrialized countries.

Finally, WIC has been found to increase growth among children with substandard growth and to decrease anemia. Studies in Arizona, Louisiana and Oregon have documented this fact.

IS WIC COST-EFFECTIVE?

As noted, WIC decreases hospital costs for low birth weight infants. Also, by reducing the incidence of birth defects, it reduces costs in subsequent years in Medicaid, special education, and disability payments.

CHILD NUTRITION

Many poor children eat school lunch. In 1980, about 38 percent of all school lunches were served free to children whose family incomes were below 125 percent of the poverty level ($10,270 annually). Another seven percent were served at reduced prices to children whose families fell between 125 and 195 percent of the poverty level.

Despite the Administration's claims that it is protecting children receiving free lunches,in reality all children now eating school lunches are threatened. The cuts proposed for the entire school lunch program are so deep that a number of schools may be forced to drop out of the program. In the process, needy children will lose access to school lunch. The proposed increase in costs to children of near poor working families will make school lunch prohibitive to many.

Cuts in the child care food program will diminish the food available to very young children in child care centers. It is difficult to claim that cutting $1 billion out of approximately $4.5 billion for child nutrition programs will not affect all recipients.

WHAT IS BEING PROPOSED BY THE REAGAN ADMINISTRATION?

Proposed major cuts include:	Estimated Savings
1. a reduction of 49.5¢ a meal to support reduced-price lunches and 23¢ for reduced price breakfasts	over $120 million
2. a reduction of 39.5¢ a meal for "paid" meals served to children from families above 185 percent of poverty	over $860 million
3. expanding and making permanent $400 million in cuts that are now effective for FY'81 only, including 4½¢ in reimbursement reduction for free, reduced, and paid meals served at most schools, lowering eligibility for reduced-price meals, and adjusting reimbursement rates for inflation once a year rather than twice	about $400 million

4.	major reductions in reimbursement rates for child care centers participating in the Child Care Food Program. Reimbursement rates in this program are tied to the school lunch reimbursement rates. When the school lunch rates are cut, so are the child care rates	(included in no.2)
5.	elimination of meal supplements (or snacks) from the Child Care Food Program	about $70 million
6.	verification of 10 percent of all applications for free and reduced price school meals by schools	$100 million
7.	elimination of the Summer Food Program	$131 million
8.	elimination of school food service equipment funds	$19 million

WHAT IS THE IMPACT OF THE REAGAN ADMINISTRATION'S PROPOSALS?

Schools May Drop Out of the Program.

Department of Agriculture studies show that each 1¢ increase in school lunch prices leads to a 1 percent drop-out of paying children. If large numbers of children drop out, the "unit cost" of producing each meal rises due to the loss of volume. Schools could then have significant difficulty in keeping their school lunch programs solvent. Consequently, numerous schools may be forced to drop out of the school lunch program if the Reagan Administration proposals are adopted. When schools drop out of the program, the poorer children are denied free meals.

Poor Working Families Will Suffer.

The reduction of 49.5¢ a meal for reduced-price meals would be in addition to a 10¢ per meal reduction Congress implemented last session. The combined cuts would result in the price of school lunches to "near poor" children jumping from 10¢ before January 1, 1981 to about 70¢ -- a six-fold increase within one year. This will mean that some children simply leave the program. Other families will have to dig deeper into scarce resources so that their children can have lunches.

Child Care Center Budgets Will Be Slashed.

Reimbursement for meals at many child care centers would be sharply reduced, including centers where a majority of the children are poor, since the rates are tied to those for school lunches. Support for meal supplements (or snacks), which constitute nearly half of all meals served in child care centers and homes, would be completely eliminated. These snacks are nutritious, including milk or juice, bread, or similar items. Because young children cannot eat large quantities in one sitting, snacks are an excellent way to add important nutrients to their daily diet. Total elimination of all federal support for snacks will thus directly affect poor children and the centers serving them. Despite the Administration's claim that Head Start Centers will not be cut, this proposal would have a significant impact on their fragile budgets which also depend on the Child Care Food Program.

Administrative Burdens for Schools Will Increase.

The proposal that schools verify 10 percent of all applications for free and reduced-price school meals would place major administrative burdens on schools without any evidence that it would save money. The Administration assumes a $100 million cost savings from this proposal despite past claims by the Department of Agriculture that such a proposal might actually increase costs.

Congress has just appropriated over $1 million for the Department to pilot test different approaches to verification to determine if it is cost-effective. It makes little sense to mandate verification before the tests are conducted.

LEGAL SERVICES

WHAT IS THE LEGAL SERVICES CORPORATION?

The Legal Services Corporation is a federally funded program which provides free legal services to the poor. Every year over a million of the nation's most disadvantaged citizens and their families are served by 323 local legal services programs located throughout the country. The Legal Services Corporation currently provides this assistance for $321 million a year.

WHO BENEFITS FROM LEGAL SERVICES?

Poor children and their families are the major beneficiaries of legal services for a broad array of problems. Indeed, over 30 percent of legal services involve family issues:

- o Children who are about to be removed from their families in neglect and termination proceedings, even though fundamental questions remain over whether they should stay together.
- o Handicapped children who are being deprived of the educational and health services to which they are entitled and which they need in order to attend school.
- o Destitute children and their families who need help in negotiating the maze of basic assistance programs necessary for their survival -- cash assistance, Medicaid and food stamps.
- o Families living in aging tenements which are still covered with lead-based paint, who need help to enforce local laws designed to remove this poisonous condition.
- o Children and their families living in cold climates need assistance negotiating with utilities to keep the heat turned on.

WHAT IS PROPOSED FOR LEGAL SERVICES?

The Reagan Administration proposes to totally eliminate the Legal Services Corporation.

WHAT WILL BE THE IMPACT OF THE PROPOSAL?

The families and children described above, and hundreds of thousands more like them, will be deprived of access to justice -- a fundamental commitment of this country.

Moreover, this lack of access to justice comes at a time when programs on which these poor children so heavily depend -- WIC, AFDC, Medicaid, food stamps, and special education programs for the handicapped and disadvantaged -- may be severely cut back. Poor children and their families will lose the legal advocates that can ensure their rights are protected in this difficult time.

ALTERNATIVE BUDGET OPTIONS

Increase shipping charges on for-profit shipping using U.S. ports and domestic waterways. This would cover the cost of waterway maintenance and improvement of ports, channels and navigation aides. Impose a $30 per year user charge on recreational boaters using Coast Guard served waters, thus recovering Coast Guard rescue costs.

Savings: FY 1982 $1.0 billion.

Eliminate the subsidy to U.S. shipbuilders. This subsidy is given for the annual construction of 3 or 4 ships. Perhaps expanded naval construction in the Defense budget will increase the productivity of U.S. shipyards.

Savings: FY 1982 $150 million.

Impose full user charges on private and corporate aircraft using Federally supported aviation facilities and services. Recreational use of airplanes is not an immediate national priority, particularly in the light of our energy crisis.

Savings: FY 1982 $800 million.

The construction program of the U.S. Corps of Engineers (the "Rivers and Harbors Act of 1910" and its successors) is a program with a questionable Federal role. We propose that the Federal share of construction costs should be capped at 60 percent of the FY 1981 level; that no project should be funded in the future unless at least 20 percent of the total cost of the project would be met by a combination of state and private funding and user fees; and that projects should be allocated among states by a competitive award among proposals ranked by the proportion of the remaining federal cost offered to be offset by a voluntary reduction in the bidding state's share of Revenue Sharing.

Savings: FY 1982 $600 million.

Land and Water Conservation Fund -- Freeze and transfer to the general account. The Outer Continental Shelf Lands Act transfers upwards of three quarters of a billion dollars a year into this fund. Even though the outgoing administration proposed a 40 percent increase in the appropriation for FY 1982 expenditures over FY 1981, the fund balance will still grow by over $400 million. Roughly half this money is given to states to buy new state recreational areas, and the other half is used by the Department of Interior to buy new Federal lands, primarily for recreation.

Together, the Federal and state governments already own over 40 percent of the total land area of the nation. We propose a moratorium on further Federal purchases of land and Federal subsidies to other governments to purchase land, until we can afford to help human service programs keep up with inflation and population growth. While recreational land is an important national asset, there are now 12 Federal acres of it for each child in America.

SAVINGS: FY 1982 $520 million plus $1.4 billion in an earmarked trust fund; cut the $520 million and absorb the $1.4 billion.

The Forest Service Construction and Land Acquisition program builds roads within the national forests so that private firms who buy timber for resale to the public may go in and get the trees; two smaller programs are direct subsidies to state and privately owned forests to improve their profit and yield potential. Together, the three programs are offered a 30 percent increase in the FY 1982 budget. Lumbering is a major profitmaking industry in the U.S. We propose to ask the Forest Service to manage the Federal forests at the maximum sustainable yield consistent with returning a profit to the Federal government.

SAVINGS: Construction, FY 1982 $500 million
State and Private Forestry, FY 1982 $60 million
Private Forestry Incentives, FY 1982 $15 million
Cut all but $75 million.

Charge full market prices for federally supplied irrigation water, supplied by Water and Power Resources Service. Of the 50.7 million acres of irrigated land in use in the U.S., the Federal government supplies full or supplementary water to 10.7 million acres — more than 20 percent of the total. The Federal government does not charge what the market would bear for irrigation water. Instead it negotiates user fees that seldom even recover the full cost of federal operations. In FY 1982 over $400 million from the general treasury will go toward new construction alone. We propose that Congress eliminate such subsidies and let the Water and Power Resources Service raise user fees and cut supply until the free market price and supply levels are reached.

SAVINGS: FY 1982 $400 million. Charge offsetting fees or cut.

Eliminate the favorable tax treatment of the "dummy" Domestic International Sales Corporations. These finance only a minute fraction of our exports, and the primary beneficiaries are manufacturers of commercial airliners.

SAVINGS: FY 1982 $1.8 billion.

Eliminate the special tax treatment of oil exploration costs and oil depreciation allowances. With domestic oil prices set above free market levels by a foreign cartel, further subsidy to exploration would appear unwarranted.

SAVINGS: FY 1982 $2.4 billion.

Eliminate or limit the $1000 income exemptions to parents for having an over 18-year-old dependent in college. This benefit increases in value with increasing levels of parental income. Before we reduce college support to low income students, we should look at regressive tax benefits like this one.

SAVINGS: FY 1982 $1.1 billion.

Eliminate twice yearly cost-of-living adjustments of military retirement benefits which are also adjusted by CPI and computed in a manner that offers a double adjustment in the first year of retirement.

SAVINGS: FY 82 $1.0 billion.

Base the capital gains tax on profits from the disposal of inherited property on its full appreciation.

SAVINGS: FY 1982 $5.4 billion.

End the tax free status of industrial development bonds issued on behalf of private firms by state and local governments. Presumably state and local governments are not better at controlling private investment than is the federal government--at the very least, there is no reason for the federal taxpayer to subsidize their attempts.

SAVINGS: FY 1982 $1.2 billion.

A 25 percent increase is proposed for a federal program that operates creches, development centers, and laboratories for sports fish. We would transfer the money for this entire program to needy children.

SAVINGS: FY 1982 $51 million.

The Federal Vocational Education Program lacks focus and enforceable formal mandates. Too few federal vocational education dollars are targeted on those youths most in need in our central cities. Unless federal vocational education dollars are better targeted to operate more effectively, we would eliminate the program.

SAVINGS: FY 1982 $779 million.

The Impact Aid program should be reduced at least to the level proposed by President Carter for FY 1982.

SAVINGS: FY 1982 $390 million.

The PL 95-504 provision that authorizes federal guarantees to the loans used to purchase commercial airliners by private profit-making airlines should be eliminated.

SAVINGS: FY 1982 [$350 million in loan guarantees].

We propose that all present programs of direct support for railroad construction, maintenance, and operations (primarily AMTRAK and CONRAIL, but also a wide range of grants to states of relatively small amounts) be combined into a single block grant to states, proportionate to their 1981 receipts, and the total be funded at 80 percent of the FY 1981 level.

SAVINGS: FY 1982 $330 million.

bread for the world
a christian citizens' movement in the usa

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PREPARED STATEMENT OF REVEREND ARTHUR SIMON

EXECUTIVE DIRECTOR, BREAD FOR THE WORLD

for the

SENATE BUDGET COMMITTEE

For the Record

Bread for the World is a Christian citizens movement that focuses on hunger-related public policy. Among legislation which BFW initiated is the Right to Food Resolution passed by this body in September of 1976. I wish to draw your attention back to that resolution in light of the current budget priorities now being set by Congress at the request of the Administration.

In 1976, hunger was very much on the minds of the people of the United States and their elected representatives. Several successive years of drought worldwide had brought about crop shortages, and famine was widespread. In the United States, we had realized a few years earlier that many of our own citizens were malnourished and were just beginning to see the positive effects federal anti-hunger programs could have on the lives of our poorest citizens. In the

Right to Food Resolution the United States "reaffirmed the right of every person in this country and throughout the world to food and a nutritionally adequate diet."

When we set the elimination of hunger as a national priority, we were able to design programs and policies to move us toward the bold objective adopted at the World Food Conference in 1974 that "within a decade no child will go to bed hungry, no family will fear for its next day's bread and that no human being's future and capacities will be stunted by malnutrition." While many people in the United States are still poor, far fewer of them are hungry. The positive effects on health of school meals, food stamps and the WIC program have been documented. For hungry people overseas, disaster and refugee assistance and development aid has often meant the difference between life and death.

However, we as a nation are in danger of falling back from the goals set out in the Right to Food Resolution. There are still many people in this country and abroad who are lacking life's basic necessities. I wish to call on you today to remember that, although the economic situation for the majority of the American people is harder now than a few years ago, our population is still among the most privileged in the world. If domestic and international programs directed towards hungry people are cut by any great amount, we can easily reverse the progress we have made, and we may incur greater costs in the long run.

Let me illustrate this with two examples. In Africa today 40% of the people are malnourished. Over 45% of the population is under 15. On a continent where the average life expectancy is 38-42 years, the health of the children is particularly crucial to productivity and development. We should not be concerned only for the 5 million refugees and many impoverished people in the villages who face life-threatening circumstances and food shortages today. We need to be concerned about the children whose emotional health and learning ability will be forever impaired if food and health care is not provided now.

Cutting back funds for health and refugee assistance, and Title II of the Food for Peace program, or retargetting those funds to other areas within the International Assistance function, particularly towards military credit sales, will have serious repercussions in future years. The hungry people in Africa today are the key to their nations' futures.

A second example of the long-term costs of cutting hunger programs can be found in our nation. Because of the important link between nutrition and learning, a few dollars spent early in a child's life will bring returns for many years. A Harvard School of Public Health study found that every one dollar spend for adequate pre-natal nutrition saved three dollars in health costs for treatment of babies with low birth weights and related ailments. Improved nutrition early in life will enable children to grow better, learn better and become productive and contributing members of our society.

The Special Supplemental Food Program for Women, Infants and Children(WIC) is perhaps the most cost-effective of our nutrition programs. But dollars spent on meals during the year and over the summer months for children are also an important investment. This Committee has recently restored the proposed funding cuts to the WIC program. But we must not stop there. Children affected by "savings" such as the elimination of the summer food program, or the so-called "overlap" between the food stamp and school lunch program, badly need this assistance. Withholding it will exact a price from all of us in the long run. Caring for disabled persons costsmore than providing food.

In the Right to Food Resolution, Congress resolved "to seek in the United States to improve food assistance to all those in need, to assure that all eligible recipients have the opportunity to receive a nutritionally adequate diet and to reduce unemployment and ensure a level of economic decency for everyone." Changes in government programs, coupled with inflation and unemployment, are having and will have a particularly harsh impact on the lives of poor people in this country. These people, many of them elderly, disabled, children, mothers of young children, and those unable to find work, should be assured a level of economic decency which they are permanently or temporarily unable to provide for themselves.

Although there are ways to peel people off the rolls who really don't need the benefits--and we certainly ought to do that--these programs stand out as enormously successful ones. Cut out waste and abuse, yes. But we must be very careful not to cut with recklessness and leave a trail of newly hungry people behind. We are in danger of doing this. The poor cannot wait three or four years until the economy improves. Once the bright sparkle in a baby's eyes fades because of inadequate food, it may be gone forever. Let me touch briefly on some related matters that we consider especially important:

National Nutrition Monitoring Survey--If less money is to be available for federal food programs in the next few years, it is critical that the government immediately develop ways to monitor the nutritional status of our population. If these cuts must be made, there must be a willingness to monitor and respond to the negative impact they will have.

What little nutritional data we have is not now coordinated and analyzed in a way that can be used to evaluate the effectiveness and efficiency of federal programs in meeting local needs. We can do little more than guess at how best to make these programs do their job. Pilot programs should be begun this year in states prepared to undertake nutrition surveillance, such as North Carolina.

Independent Analysis of the Defense Budget--We recognize that the decisions you are now making on budget priorities are often painful ones. Henry Bellmon, recently retired from the Senate, has stated: "We no longer possess the economic resources to fund national security in an undirected fashion, and still adequately meet domestic spending priorities and keep inflation under control. We cannot afford unlimited guns and plentiful butter. This does not mean defense should not receive what it needs. It does mean we need to know what defense responsibly requires." We think that all programs defense included, should be as carefully scrutinized for waste, overlap, and poor targetting as are our domestic food programs. Defense spending represents a major portion of our national budget. As that portion is being increased at the expense of other areas, it is particularly important at this time to call on the General Accounting Office to do a full scale analysis of the defense budget. The GAO has done a number of smaller scale reports and made cost-saving suggestions which have not always been implemented. We have in mind a comprehensive study that would build on, and go beyond the various reports GAO has done regarding various aspects of our defense establishment. The study should not only investigate the question of waste, but also independently assess the nature and extent of the Soviet threat and the appropriateness of the U.S. response to that threat. The potential savings could be very significant indeed.

Hunger and Global Security--Military spending is not the only component of our national security. The Right to Food Resolution stated that "It is in the interests of the United States and all nations to overcome food shortages which cause human suffering and generate economic and political insecurity." The President's Commission on World Hunger, recognizing hunger as a destabilizing force recommended that the U.S. make the elimination of hunger the primary focus of our relationships with developing nations and pointed out that such a focus would be in the interest of our national security.

Only five years ago the United States recognized that the international community has repeatedly urged the industrialized nations to increase their official developmental assistance to 0.7% of their total national production. Our present committment is less than 0.2% and declining. Currently, cuts and reallocations in foreign assistance are being recommended.

Bread for the World recently encouraged the introduction of H.R. 2793, the Hunger and Global Security Bill. This bill does not request increased foreign assistance funding above current levels, but rather specifies reforms in current policy and spending which would better use current resources to help the poorest people in other nations. We cannot, however, seek to reform programs which no longer exist.

We applaud the President's pledge to protect needy persons. However, we believe that some of the cuts will have an adverse effect on the very people he has pledged to protect. We call on you to make certain that United State's commitments to the poor and needy in this country and abroad, as set forth in the Right to Food Resolution, be foremost among our priorities. These commitments to the poorest of our brothers and sisters, apart from being truly in our national interest, are fitting and important responses springing from our Christian and humanitarian concerns.

League of
United Latin
American Citizens

Office of National President
RUBEN BONILLA, JR.

April 10, 1981

The Honorable Pete V. Domenici
Chairman, Senate Budget Committee
2317 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Domenici:

The enclosed letter endorsed by all the major national Hispanic organizations indicates our collective concerns with President Ronald Reagan's economic recovery package, and proposes our alternatives to reducing federal expenditures and stimulating our economy. It is our intention that this letter be included in the hearing record pertaining to hearings held last week and April 6, 1981 by your Committee on alternative budget proposals.

As we state in our letter,..."While the Hispanic community is in support of such projected results, (reduction in inflation rates, reduction of tax burden on American taxpayer, and increasing real incomes by stimulating capital investment and enhancing productivity) we nonetheless have serious reservations with the content's of Mr. Reagan's economic and budget proposals and the subsequent actions taken by your Committee." Furthermore, we are very concerned with the comments the press has attributed to you over the last three weeks which indicate your strong support for the President's package without any alterations whatsoever. The Hispanic community has shared a strong relationship with you over the years. We have felt and you have always emphasized your desire and will to assist Hispanics in becoming part of mainstream America. You have stated your concern for our dismal housing, education, health and employment conditions yet, you have been insistant on having President Reagan's proposal approved which would have a severe impact on our community. We are not advocating that reductions not take place, we are however insisting that more analysis and attention be given to their impact and possible alternatives.

P. O. DRAWER 5427 2590 MORGAN AVENUE CORPUS CHRISTI, TEXAS 78405 512/882-8284

The action taken by the House Budget Committee indicates that there are indeed other alternatives available to effectively deal with our economy, and are more humane in their impact. Also, as evidenced by your Committee's vote rejecting aspects of Mr. Reagan's proposal, there appears to be a recognition that other approaches can accomplish the objective of reviving our economy and controlling inflation.

We are hopeful our comments will serve as a beginning to improving communication between us on this important matter. Perhaps a meeting between yourself and representatives of the Hispanic community would be a conducive undertaking for improving our understanding of one anothers concerns.

Respectfully submitted,

Arnoldo S. Torres
LULAC Congressional Liaison

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400 First Street, N.W.
Washington, D.C. 20001
202/347-1652

The Honorable Pete V. Domenici
Chairman, Senate Budget Committee
2317 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Domenici:

Your task as Chairman of the Senate Budget Committee is indeed a most difficult one. The need to improve our ever depressing economy is without a doubt tantamount to the future well being of our nation. Hispanics certainly recognize and feel the consequences of double-digit inflation and of our stagnating rate of productivity. In an effort to address and remedy this dangerous trend, President Ronald Reagan submitted to Congress a revised Fiscal Year 1982 Federal Budget proposing reductions of $49.1 billion, and a 10% a year reduction in individual tax rates for 3 years. The major claims of this economic recovery package if approved, would be:

- o Reduction in inflation rates.
- o Reduction of tax burden on American taxpayer.
- o Increasing real incomes by stimulating capital investment and enhancing productivity.

While the Hispanic community, is in support of such projected results, we nonetheless have serious reservations with the contents of Mr. Reagan's economic and budget proposals. Should the recommendations made by the President become law, it is our assessment that the country will suffer additional economic and social ramifications which can only lead to more financial and internal instability. We do not believe that these proposals will accomplish the claims of President Reagan.

During the 1980 Presidential campaign, then candidate Ronald Reagan spoke of the ravages which inflation was committing in this nation. He spoke of the need to control federal spending and of his intention to do away with wasteful federal expenditures and give the American taxpayer a tax cut. Now, President Reagan is proposing reductions in areas which do not reflect wasteful expenditures. Rather, these cuts are in programs which are the sole lifelines for many of those receiving this assistance. An overview of our community finds over one-fifth (20.4%) of Hispanic families having income below the poverty level, compared to only 6.8% of all Anglo families. Also, in 1979 a migrant worker could have been employed in farm labor every day of the year and still bring home an annual income of $3,000. Despite the President's "safety net", very few of the poor will be saved by it's mesh. The term "truly needy" is indeed one developed by current bureaucrats in Washington and their insensitivity to the poor. The "truly needy" are in many cases those which will receive either minimal or no assistance at all after having looked to the federal government as their only option. Very little if any analysis or debate has been encouraged by the Administration on the scope of the impact these proposals would have on the poor and disadvantaged of this country. We maintain that reductions could and should be made in areas of the budget which indeed reflect wasteful expenditures and do not maximize the federal investment. However, the depth of these cuts do not mirror discriminate or thorough assessment of the utilization and maximization of these monies. Rather, the Administration has decided to reconstruct the country's socio-economic infrastructure by attacking and destroying the confidence investment and need the poor and disadvantaged have held in the federal government.

We are not advocating that reductions not take place, we are however, insisting that more analysis and attention be given to their impact and the possible alternatives. The Hispanic community has invested a great deal in the direction of this country and has contributed to it's development. In addition, with a 61% increase in Hispanic population from 1970 to 1980 (Source: 1980 Census) and with a median age of 21 years, there is no doubt that our investment will increase, and can be potentially greater to America's future. With Hispanics experiencing among the Nation's highest indices for levels of poverty, unemployment and school drop-outs there is little question that our people suffer not only increasingly but disproportionately as our economic environment worsens.

It is extremely difficult to comprehend and rationalize the budget proposal as being in the best interests of the country. Programs that now account for 30 percent of the federal budget will absorb primarily all of the effects. The major portion of the reductions would affect areas such as education, employment and training, nutrition, health and social services. Part and parcel of this fact, the budget plan fails to meaningfully distinguish between programs that are essentially wasteful versus those programs that are mainly "opportunity-creating", serving the poor and disadvantaged while applyling self-help principals to public assistance. For example we see expenditures for the Neighborhood Self-Help Development Administration, Economic Development Administration, employment and training programs under CETA and other opportunity creating programs being drastically reduced or eliminated.

We question how the democratic process can focus only on social programs while failing to recognize the reported, documented and substantiated fiscal abuses found in Defense expenditures and procurement procedures? How can the democratic process fail to recognize and address the voluminous reports by the General Accounting Office (GAO) which have identified billions of dollars in wasteful federal expenditures due to poor management and procurement practices? How can the democratic process fail to examine the alternatives forwarded by the Congressional Budget Office, the Congressional Black Caucus and others for reducing the federal budget in more prudent and humane manner? The answer for controlling inflation does not depend solely on budget cuts which eliminate social programs that composed the foundation of this nation's altruistic conscience to equalize opportunities for it's citizens. There are other factors such as world commodity prices for oil and food which are instrumental in accelerating the rate of inflation but have received no mention in the actions proposed or taken by the Administration. Yet, elimination of social programs is the main focus of the Administrations proposal to combat inflation.

Those who have necessarily looked to these programs for opportunity assistance are told now to look to the state and local levels, which the Administration proposes to assist by way of consolidated "block grants". Yet, without a mandate that services be targeted to those with the greatest need -- low-income, disadvantaged, and minority-Americans -- states and localities retain the option of redirecting monies to other uses. This would present a dramatic decrease in support for non-profit community based organizations that are designed to meet the needs of their local residents and are uniquely capable of reaching minority and low income target groups. It seems that the Administration views block grants as a panacea to diminishing the role of the federal government while instituting a new form of governance. Unfortunately, the proponents have again failed to analyze the consequences of this action on the dynamics of inter-governmental relations. We firmly maintain that changes should be made in the roles that levels of government presently have, however, it is as short-sighted to believe that state and local governments should have all authority, as it is to believe that the federal government should be omnipotent. Rather we propose, as have various Governors, that this deliberation process seriously assess the appropriate roles different levels of government should have in view of their resources, capabilities and historical development. When such roles have been established, governments should be provided the necessary resources in order to fully comply with their responsibilities in an efficient and effetive manner. The Reagan Administration has not addressed this aspect in its block grants for educational and social service programs. The Congressional Budget Office, National League of Governors Conference, National League of Cities and National Association of Counties have all indicated that many costs for such services will be passed to the states and local governments who have been recently experiencing major tax revenue limitations resulting from initiatives like Proposition 13 in California. Therefore, more responsibility confronted by limited and decreasing funding sources while demand continues to increase, is what states and locals will inherit. There are no additional resources being provided to these levels of government to deal with this situation. The best example of this condition is found in the area of reducing Medicaid and Medicare budgets. It is imperative that federal and state governments be given the proper tools to control medical costs, impowering them to bargain for reduced rates with specific providers and promote effective, organized health systems. If this is carried out a reduction of the tax burden and improvement of the medical care for the poor can be accomplished. If not, the proposed reductions will only serve to shift the tax burden to state and local taxpayers. Thus far, the Administration has not provided such tools.

With regard to the proposed individual tax cuts and business cuts, we recognize that these matters do not fall under the jurisdiction of your committee. However, when we combine the actions taken on the budget reductions and block grants with these individual and business tax cuts, the President's economic recovery package certainly does not recover much for the Hispanic community. Due to inflation caused "bracket creep" and the 1981 increases in Social Security taxes, most individuals earning under $20,000 per year would actually pay higher tax rates -- even after enactment of the tax cut. Eighty-five percent of the real reductions in taxes would go to the five percent of individuals with incomes over $50,000.00. Obviously, with a median income of $12,500 the Hispanic community would not benefit equitably from this type of tax relief proposal.
The business tax cuts do not focus on growth industries but rather are concentrated on the country's largest corporations. Furthermore, they do not provide employment creating incentives, an aspect which is certainly necessary with today's high unemployment. The social political and economic problems that we confront as a Nation today are of such magnitude that we the people of the United States can ill afford to adopt any policy which fails to optimize the resources and potentiality of all our people, particularly where a lack of investment in human resources can result in greater overall socio-economic costs.

We would be hard pressed, as we trust you would be Senator, to believe that this prospect coincides with the President's objectives, or more accurately, would serve the best interests of our country.

We therefore would recommend the following alternatives for reducing the Federal budget and stimulating our economy:

o Congressional Budget Office Proposal

- Phased in reductions over five fiscal years.
- Changes in the Automatic Indexing of Entitlement
- Program Benefits.
- Incentives to States for Hospital Rate Setting.
- Increased Transportation User Fees.
- Private Financing of the Strategic Petroleum Reserve
- Termination of Federal support Breeder Reactor
- Program
- Elimination of Maritime Industry Subsidies

o Elimination of documented wasteful expenditures within
o the Defense budget (estimated to be over $10 billion)

o Elimination of documented wasteful expenditures in Federal
o bureaucracy due to poor management and procurement
o practices.

o Establish mechanism enabling immediate corrective action
o as recommended in General Accounting Office (GAO) reports
o identifying wasteful expenditures.

o Congressional Black Caucus Proposal.

- Closing of tax loopholes which deny U.S. Treasury
- some $9.3 billion in revenues.
- Implementation of other cost saving measures concerning
- tax law.

o Elimination of duplicative, overlapping functions in all
o programs funded under federal budget.

o Redesigning of federal programs found not to be complying
o with legislative intent or maximizing appropriated funds.

o More equitable tax policy providing relief for working poor
o and low middle income.

o Business tax cuts for growth industries.

o Promotion of capital formation by new and innovative companies
o through lower taxes on capital gains and qualified stock
o options.

o Tax incentives for employment creation initiatives by private
o industry.

As conscientious members of American society, we are genuinely concerned with what appears to be an obsession in Congress to support and embellish the Presidents' budget cutting proposals without seriously assessing the full extent of their potential impact on our socio-economic infrastructure. It is our position that efforts to balance the budget, to stimulate and stabilize the economy and to eliminate waste and fraud in government, can be accomplished through sound planning, sensitive and humane policy assessment and effective management. It is our perspective that the nature and extent of these cuts lend themselves to none of the above. This is especially the case when America's leaders sway to political whims, leaving Hispanics and other Americans highly vulnerable.

Out of this reality and our experience over time, we hold firm to our conviction that fundamental aspects of the pending budget proposals promise to impede our Nation's path to maximizing its human resources by further limiting opportunities for America's most emergent minority, - the Hispanic-American.

Ruben Bonilla, Jr., National President
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Manuel Bustelo, Executive Director
National Puerto Rican Forum, Incl

Monte E. Perez, Executive Secretary
National Association for Equal Education Opportunity

Ed Avila, National Director
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STATEMENT REGARDING PROPOSED TERMINATION OF UNIVERSITY MANAGEMENT AND TECHNICAL ASSISTANCE PROGRAM OF THE ECONOMIC DEVELOPMENT ADMINISTRATION

We would like to make you aware of a program that is small in terms of Washington spending, but very large in its impact on the rest of the country. University Centers are filling the gap between institutions of higher learning and the world of business and local government. The investment in this vital link produces much more for the taxpaying public than it costs. Centers utilize the expertise and facilities of state and private university systems to bring those resources to bear on local, regional and state development problems and opportunities.

If our economic and political systems are to succeed and if development is to occur, businesses and municipal governments need a place to turn for assistance. This is particularly true in the inner cities and rural areas that University Centers serve. University Centers provide a support system for regional and local economic growth. We ask that you consider these facts:

- The University Center system is in place and functioning well
- The cost is relatively small
- The return on investment is huge
- The program receives state as well as federal support
- Program spending is under control (The budget, $3,000,000 nationally, has remained the same for the last four years)
- The success of the program is well documented.
- During FY 1979, projects accomplished by 35 centers resulted in the preservation or addition of more than 23,000 jobs to the private sector labor force.

In FY 1980 the federal government spent $2,990,000 on the University Center Program. State governments provided matching operating funds for 35 centers nationwide in the amount of $2,700,000. The resulting capital investment generated by Center projects was in excess of $240,000,000. The program is a part of the Technical Assistance budget of the Economic Development Administration.

The University Center program has been modeled after the agricultural extension concept which is partially responsible for the tremendous advances in the productivity of the American farmer. Similarly, University Centers provide improved management techniques and technological information and assistance to the business community, state and municipal governments. The Centers are providing the kind of education and assistance functions that make the free enterprise system work for all Americans.

It is difficult to understand why a cost effective, efficient, positive and productive program is about to be eliminated. Hard times demand difficult choices. Difficult choices, on the other hand, must be made with an adequate amount of information. It is our hope that you will use the information provided herein to insure that the $3,000,000 set aside by Congress in 1977 for the University Center Program is preserved in order that this vital function can be carried out.

national
association
of regional
councils

1700 K St., N.W., Washington, D.C. 20006 • Area Code (202) 457-0710

RICHARD C. HARTMAN, Executive Director

STATEMENT OF

CHARLES SALEM
Mayor, Goodyear, Arizona
Member, Maricopa Association of Governments; and
President, National Association of Regional Councils

ON BEHALF OF THE

NATIONAL ASSOCIATION OF REGIONAL COUNCILS

BEFORE THE

SENATE COMMITTEE ON BUDGET

ON THE

IMPACT OF PRESIDENT REAGAN'S ECONOMIC
PLAN ON STATE AND LOCAL GOVERNMENTS

April 3, 1981
Washington, D.C.

Mr. Chairman, I am Charles Salem, president of the National Association of Regional Councils* and mayor of Goodyear, Arizona. NARC appreciates this opportunity to submit this brief statement to the Committee today. /

It is our understanding that the purpose of today's hearing is to assess the impact of President Reagan's economic plan on state and local governments. We believe that regional councils should have a prominent role in this discussion.

The President's proposals will undoubtedly have a significant effect on the way state and local governments serve their citizens.

We local elected officials will find ourselves having to do with less while trying not to curtail too severely many of the local services our citizens have come to expect. This pressure to deliver the same for less will mean that many areas will be relying more than ever on a regional approach to problem-solving.

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*The National Association of Regional Councils represents approximately 350 of the nation's 600 regional councils of local governments. Regional councils are public organizations encompassing a regional community and are tied directly to their local governments through local and/or state government actions. The basic responsibility of a regional council is to be an umbrella agency which coordinates regional coordination and management activities. Many regional councils also arrange for the implementation of regional policies.

In 1981, Americans do not simply live in cities or counties. They are often citizens of a metropolitan or rural region. In a day's time, a person may cross many jurisdictional boundaries. He or she may live in one political subdivision and work in another. And in getting from home to work and back, a person may cross several boundaries.

The mobility and life style of American people today must be recognized as we address the issues surrounding assistance to state and local governments. I am sure that Congress and the Administration recognize that local problems do not occur simply within the boundaries of a city or county. Moreover, such problems are not often efficiently addressed by the state government.

Many local communities have moved toward utilizing a regional approach to make more cost-effective decisions on transportation, development, housing, social services and other issues.

This brings me to the impact of the President's budget on states, regions and localities.

NARC recognizes and supports the President's efforts to trim federal spending and reduce inflation. But we seriously question 100% cuts in programs that are proven methods for saving federal dollars. Many of these problems provide basic support for the intergovernmental approach used by regional councils.

Under the Reagan cuts, many programs which provide encouragement for communities to look at problems in the context of how each community relates to the others are eliminated. In the haste to trim federal spending, the new Administration has proposed scuttling a cost-effective mechanism for allocating resources.

This is indeed ironic because as the money crunch comes, it will be more important than ever to encourage a regional approach. The reduced federal hardware and service dollars that will be sent to local areas must be used in the most efficient manner possible.

We ask this panel and others in Congress to take another look at the elimination of such regional programs as transportation management (the MPO process); water quality management; HUD's 701 community development coordination program; and economic and rural development assistance. We believe that zeroing out these programs as the Reagan budget does will cripple the efforts of metropolitan and rural areas to address the coming federal hardware assistance crunch.

(Attached, for this panel's information, is a chart which shows the relative federal investments in regional coordination and management programs and "hardware" programs.)

We strongly urge a closer look at the proposed elimination of these regional programs. As I said before, NARC's members are ready and willing to help the President get federal spending under control. But just as strong as that support is NARC's belief that the President and Congress should examine the long-term effects of cuts to local assistance.

Close examination of assistance to regional, intergovernmental bodies will illustrate that the size of the federal investment is small but the long-term pay-off significant. Zeroing out these programs is penny-wise but pound-foolish.

Thank you.

Attachment A

Following is a chart which shows the relative federal investments in regional coordination and management programs and related "hardware" programs. Figures are approximate.

Program	FY'81 $$ for Regional Coordination	FY'81 $$ for Hardware (loans and grants)
Transportation	$100 million	$11 billion
Rural Development	$ 5 million	$1.7 billion
Community Development	$ 33 million	$4 billion
Water Quality	$ 34 million	$4.9 billion
Economic Development	$ 16 million	$555 million
TOTAL	$188 million	$21 billion

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National Association of Veterans Program Administrators

RICHARD H. BARNES, PRESIDENT
c/o WICHITA STATE UNIVERSITY
BOX 108
WICHITA, KS 67208

PHONE (316) 689-3027

March 16, 1981

The Honorable

Dear :

I am sending you a copy of the testimony provided to the Budget Committee by the National Association of Veterans Program Administrators in support of the Veterans Cost of Instruction Payments Program (VCIP). The program has been requested for rescission in the President's budget. The information is being provided to enlist your support for the continuation of this important and cost effective program.

The Veterans Cost of Instruction Payments Program is providing direct services to over 500,000 Vietnam Era Veterans and other eligible persons at 1,017 institutions of higher learning. The program was scheduled for funding in 1981 at 12.039 million dollars. This is a decrease from the previous year's funding of over 2 million dollars. There are several key points contained in the testimony that I would like for you to consider.

1. The rationale for the rescission contained in the budget request contains many non-factual, incorrect, or misleading statements. The document is being used to eliminate a program that was already funded for the next year on the basis of hearsay and innuendo. If that approach is used to cut government spending many programs, like VCIP, that are cost effective and doing the job they were intended to do, will be lost.

2. The cost to the taxpayer could increase more with the rescission of the VCIP program than the current funding would cost. This is a result of the majority of these offices providing the support for the certification function of the institutions to the Veterans Administration. Without this support, the overpayment problem for the Veterans Administration and the institutions could increase and the cost in overpayments and collection of these as well as increased work loads for other agencies would cost more than the VCIP program.

3. Over 95% of the Veterans Offices will close on June 30, 1981, without the continued support of the VCIP program. As we approach the ending date, it becomes more difficult

NAVPA ANNUAL CONVENTION   OCTOBER 7-11, 1981 ATLANTA, GA for the institutions to absorb the funding for the program. They cannot and should not be expected to fully fund these offices on two or three months notice. At least a one-year transition period is needed to continue the services to the Vietnam Era Veterans and for the institutions to absorb the funding and the Vietnam veterans personnel that operate these offices.

The VCIP program has and can continue to perform a vital task in an efficient and cost effective manner. I hope that you will review this program carefully and that your decision will be in the best interest of everyone concerned. I would be glad to provide any further information or assistance to you or your staff.

Respectfully yours,

Richard H. Barnes,
President

RHB/djs

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National Association of Veterans Program Administrators

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TESTIMONY SUBMITTED TO THE
SENATE BUDGET COMMITTEE
FOR THE CONTINUATION OF THE
VETERANS COST OF INSTRUCTION PAYMENTS PROGRAM (VCIP)

MARCH 1981

BY

RICHARD H. BARNES, PRESIDENT

NATIONAL ASSOCIATION OF VETERANS PROGRAM ADMINISTRATORS (NAVPA)

I appreciate the opportunity to present this written testimony to this distinguished committee to express the views of the National Association of Veterans Program Administrators (NAVPA) on the proposed rescission of the Veterans Cost of Instruction Payments Program (VCIP) as outlined in the Justifications of Appropriation Estimates for Committees on Appropriations, Fiscal Year 1981; Rescissions; Department of Education.

The National Association of Veterans Program Administrators is a non-profit organization, comprised of professional educators who administer veteran's programs on the campuses of 1,017 institutions of higher learning. Most of these programs are funded under the Veterans Cost of Instruction Payments Program (VCIP) which is administered by the Department of Education. The programs provide five legislatively mandated services: outreach, recruitment, counseling, special education, and maintenance of a full time Office of Veterans Affairs. These are the minimum services provided. The overwhelming majority provide services that far exceed the mandates of the legislation. Services being provided are accessible to all students at each institution who are eligible to receive Veterans Administration benefits. The number actually being served may be one and one-half times the number documented by VCIP program reports.

The decision to rescind the VCIP program by the Reagan Administration was based on incorrect and misleading information. We have been informed that the decision and rationale to rescind the VCIP program was completed by budget planners without consulting or requesting information from the Veterans Program Branch or reviewing any of the program documents or reports. I would like to present in this paper some information which I believe substantiates that the rationale for rescission is based on incorrect information and that the VCIP program should not be rescinded as it is providing the services to Vietnam Era Veterans as mandated by legislation and in a cost effective manner. I would now like to take the rationale for the proposed rescission as stated in the Rescission Document[1] and provide the reason we believe the information to be incorrect.

1. The Department of Education Rescission Document states: "...the number of eligible veterans had declined to 320,500. Projections indicate that eligible enrollment is likely to fall below 276,000 in 1981." This figure does not accurately depict the numbers of students served by this program. The 320,500 figure is not the number of veterans the program serves, but the Full-time Equivalent (FTE) number of veterans that is used for funding purposes. The VCIP program regulations, Title 45, Section 189.3, defines that only undergraduate, half-time enrolled or more, receiving benefits under Title 38 Veterans Administration Chapters 31 or 34 may be counted for the purpose of funding under this program. These figures, both for 1980 and projected for 1981, do not reflect the services provided to graduate student veterans, widows, orphans and dependents of disabled and deceased veterans, veterans who may be out of G.I. Bill entitlement, and many others including active duty using tuition assistance and those not eligible under this G.I. Bill. A survey completed by NAVPA[2] of the VCIP institutions shows that the numbers of students served by the program may exceed 500,000. The projected figures have not taken into account the increase reported this year by many institutions over last years figures.[3] Nor did it take into account the figures released by the Veterans Administration in late 1979 that indicated as many as 4.5 million veterans still had entitlement remaining and were still eligible to use their benefits. The dramatic decrease in the numbers of veterans reported by

this program in 1976 is a result of the 10 year delimiting date imposed on this G.I. Bill. In 1976, all veterans who were discharged prior to May 31, 1966, lost their eligibility for the G.I. Bill and although they may have stayed enrolled and used the services of the VCIP offices, they cannot be counted for the purpose of this program.

2. The rescission document further states: "...the award under VCIP is determined by the number of veterans enrolled, the decline in enrollment has resulted in smaller awards to the institutions." The statement is correct except that it does not take into account the supplemental money provided by the institution. A review of the Fiscal Operations Reports[4] of the program would show the actual amounts of money the offices operate with each year. The amount of money contributed in the last fiscal year by institutions towards the operation of the Office of Veterans Affairs was over $7,715,000.[5] Most of the supplemental money comes from the Veterans Administration Reporting Fee for these offices doing the certification of veterans as a part of their services. Also the awards have become smaller as a result of the decreased appropriations. The smaller appropriations have been based on the fact that $46 dollars per FTE Veteran each year is what the program needed. The fact is that the amount paid for each FTE veteran has been different each year and is determined by dividing the amount of money appropriated by the number of eligible veterans and arriving at a figure for each Catagory I FTE Veteran. Appropriations cannot be determined by a preset FTE amount of money.

3. To continue, the rescission document states: "...result in a reduction in the quantity and quality of the services...". A review of the Program Operations Reports[7] of the VCIP program would provide information that would dispute this statement. Most of the programs and the services they

provide have remained constant even with fewer dollars and in many cases have improved as the coordinators time in the program increased and they make better use of their personnel and work-study students.

4. "..., institutions should be able to absorb the smaller number of veterans into their traditional counseling and service programs." For the most part, they cannot and not with such short notice. The Vietnam Era Veterans are not traditional students. This year their average age is over 32. The vast majority of services on college campuses are designed for students aged 18-22. Also many of the veterans are educationally disadvantaged and have been out of school for a long period or only have a GED. Most campus services are not geared towards these types of students but towards the traditional high school graduate who begins college the following fall semester. Many of the counselors are younger than the veterans, or were in college while they went to war, or have no experience that relates to the veterans problems. Most do not understand the problems of the veterans and lack the empathy they receive from the VCIP staff. Also, the certification process to the Veterans Administration has been incorporated into 90% of the VCIP offices.[8] This function must continue if the veterans attend the institution. Certification has become three times more complicated in the last five years with increased accountability. Without the expertise of the Veterans' Coordinators and the VCIP program, the problems with the certification process would increase dramatically. Many veterans will not be able to attend school because of delays or because of certification problems, which is the same as denying them their benefits. More importantly, the amount of overpayments to the government would increase again. This could cost the taxpayer and the government more time and money than the cost of the VCIP program. The proposed rescission of the VCIP program on June 30,1981, does not allow

institutions a sufficient amount of time in which to assume the total financial obligations for the program. As a result of this, the majority of these programs will cease to function on June 30, 1981. To insure an orderly transition from federal funding to institutional funding, a provision not required of this program, requires a period of time longer than five months. Institutions cannot be expected to replace federal funds on such short notice and without any prior notification. The orderly transition from federal to institutional funds should occur during the remaining years the program is authorized. During this period,the VCIP program needs to have a stable level of funding of not less than the $12 million level. This would allow the program to retain its professional people and for them to concentrate on accomplishing the mandates of the program effectively instead of spending time to keep the program alive.

5. "...Veterans Administration has eliminated their Veterans Representatives on Campuses" (VROC). The Veterans Administration phased out the VROC program but the major reason was not the decline in enrollment but because of budget cuts by the Carter Administration in the VA budget. The budget decision to phase out the VROC program continued because the institutions could now provide the services with the VCIP program, and also because the VROC program did not receive its full funding support as called for in its authorization. The Director of the Veterans Assistance Service in the Veterans Adminstration and program documents could correct this error.

We have attempted to provide other information for the major statements that are contained in the rescission document which may shed new light on the VCIP program. There are several other issues that should be addressed in this testimony relating to the VCIP program that provide further insight into this productive and cost effective program and the need for its continuance.

The VCIP program has never achieved full funding status since its inception in 1973,[9] and except for one supplemental funding period, the program operated at the $23 million funding level through 1978. In 1979, the funding was decreased to $19 million; in 1980 to $14.38 million, and was scheduled for $12.03 million in 1981. This is a decrease over a three year period of 49.4% of the program appropriations. This amount exceeds the Reagan Administration's requested budget cuts in federal program spending. VCIP has reached a level of minimum funding if we are to carry out this program effectively.

The new proposed regulations for VCIP[10] include input from this Association and from the VCIP institutions. These new measures were requested as money and time saving regulations for the program. Few other programs have requested a reduction in the maximum award of nearly 50%, from $135,000 to $75,000 and for an increase in the amount that must be used in the operation of the program, from 75% to 90%. While other programs request increased awards, VCIP institutions have seen the need, with decreasing appropriations, to maximize the awards of all participants in the program. The new regulations also streamline the administrative process of the program which could decrease the administrative costs within the Department. Also VCIP has a minimum of regulations and paperwork. There are three major reports required that take less than 4 total hours to complete. This includes the application. The regulations are concise and reduced to a minimum, all of which fall within President Reagan's guidelines for programs.

The VCIP program is the only program of its kind directed towards Vietnam Era Veterans in Education and the only program outreaching to these veterans to assist them into education and to use their G.I. Bill. While the Veterans Administration has improved its outreach efforts, its direction thorugh the new "VET CENTERS" is towards psychological counseling of Vietnam

Era Veterans for such problems as Delayed Stress. It must also be noted that although Veterans Administration Statistics indicate the rate of usage of the G.I. Bill is near 60%, that figure is not representative of the number of veterans who have completed training, rather, it is the number who started training. The VCIP program is assisting many of these veterans whose first experience was less than satisfying or who were not prepared for higher education.

In conclusion, the Veterans Cost of Instruction Payments Program is an efficient, cost effective program that is serving a population of Vietnam Era Veterans that still need assistance. The President stated in his budget speech and in his speech on Tuesday, February 24, when he presented the Medal Of Honor to a Vietnam Veteran, that the needy of the country would not suffer nor be picked out to carry an unfair burden of the budget cuts, and secondly, that the Vietnam Veterans have not received all that they should have received from their country. The Veterans Cost of Instruction Program is designed to assist these veterans who are in need of readjustment to compete with their peers in society. The National Association of Veterans Program Administrators is confident that the VCIP program is a part of that readjustment and commitment to the Vietnam Era Veteran. The program is one that should be reconsidered by both the Administration and the Congress,before the rescission process proceeds further, as an effective, efficient and very successful federal program that should be continued.

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1. Justifications of Appropriation Estimates for Committees on Appropriations, Fiscal Year 1981; Rescissions; Department of Education; Jan. 1981.

2. National Association of Veterans Program Administrators, Veterans Enrollment Survey (Unpublished), November 1980.

3. Veteran Student Enrollment Verification; Veterans Program Branch, Deapartment of Education, October 1980 & February 1981.

4. Fiscal Operation Report; Veterans Program Branch, Department of Education.

5. Ibid

6. Funding Summary Veterans' Cost of Instruction Payments Program (VCIP) Veterans Programs Branch, Department of Education

7. Program Operation Report; Veterans Programs Branch, Department of Education.

8. National Association of Veterans Program Administrators, Veterans Enrollment Survey (Unpublished), November 1980.
NAVPA Model Office Committee, Veterans Program Self Review Sample, Fall 1980.

9. Funding Summary Veterans' Cost of Instruction Payments Program (VCIP) Veterans Programs Branch, Department of Education

10. Federal Register, Tuesday, December 30, 1980.

NON PROFIT ORGANIZATION

NATIONAL SPINAL CORD INJURY FOUNDATION
(FORMERLY NATIONAL PARAPLEGIA FOUNDATION)
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TESTIMONY CONCERNING PROPOSED BUDGET CUTS

My name is Alice Sporar. I have been disabled as a result of polio since 1949. For the past ten years, I have been involved with the National Spinal Cord Injury Foundation.

During this time, I have seen positive changes in attitudes toward disabled people due to legislation, such as, the Rehabilitation Act of 1973, especially Sections 501, 502, 503, 504, the 1978 Amendments to the Rehabilitation Act, especially Title VII Independent Living, The Education for All Handicapped Children Act of 1975, and the newest 1980 Social Security Amendments. As a result, more disabled people are completing high school, graduating from college, and holding responsible positions.

Federally funded independent living centers are the result of the 1978 Amendments to the Rehabilitation Act of 1973. The Northeast Ohio Chapter of National Spinal Cord Injury Foundation has developed one of these centers, Services for Independent Living, which is completing its first year. The centers are funded for three one year contracts by Rehabilitation Services Administration through the State Rehabilitation Services Commission. During this time, it is expected that the centers will have been able to tap local funding sources for continuing support. The goal of Services for Independent Living and other centers throughout the country is to maximize the independent living skills of disabled people and allow them to become contributing members of society through programs of peer support, housing and attendant referral, and advocacy. The centers are managed and operated by disabled

National
Spinal Cord
Injury
Foundation

people. Services for Independent Living is directed by a woman paralyzed from the neck down who had not been employed since her accident twenty-five years ago.

In Ohio, disabled citizens are working toward developing an in-home attendant care program. The program will provide attendant care for severely disabled persons in their homes vs. institionalization. This would allow disabled individuals to be employed, thus becoming taxpayers. In-home attendant care programs have proven to be cost effective in California and Massachusetts. In-home attendant care is one of the programs being developed by the federally funded independent living centers.

We understand that the Reagan Administration plans to repeal all of the Rehabilitation Act except Sections 501, 503, and 504. This means Title VII -- Independent Living Centers would be eliminated. Cutting funds for Independent Living, Vocational Rehabilitation, The Education for All Handicapped Children Act of 1975, the Social Security Amendments of 1980, which remove work disincentives, and Section 502 of the Rehabilitation Act, is a fall back into the Dark Ages. We do not want to see Rehabilitation and Independent Living put into a block grant with Social Service. Social Service stresses dependence. Rehabilitation and Independent Living stress independence. These programs which the Reagan Administration plans to eliminate are the ones needed to keep disabled people off of welfare rolls and allow them the opportunity to be employed and to contribute to society.

We do not want to lose all we've gained over the past ten years. We must preserve the Rehabilitation Act of 1973, the 1978 Amendments, especially Title VII - Independent Living Centers, funding for Vocational Rehabilitation, The Education for All Handicapped Children Act of 1975, and the 1980 Social Security Amendments. If the regulations are too complex and costly, then they can be amended, but we must not eliminate entire laws.

It's ironic that this testimony is necessary in 1981, The International Year of Disabled Persons.

Submitted by,

Alice Sporar

Alice Sporar
President
NEO/NSCIF

WRITTEN TESTIMONY OF
JAMES M. ROBISON
PRESIDENT, SOUTHERN INDIANA SHALE OIL CO., INC.
FOR THE BUDGET COMMITTEE
U.S. SENATE
MARCH 19, 1981

Southern Indiana Shale Oil Co., Inc., known as SISO, submits the following information as evidence to be included within the record of the Budget Committee's present consideration of the President's budget requests, the same as though we had presented this material as oral testimony as a part of the Committee's hearing procedure.

SISO was one of 79 recipients of grants selected from over 1100 applicants in the second round of feasibility study and cooperative agreement proposals from the Department of Energy. That these 79 were awarded grants from so many applicants, after several layers of competitive review by the Department of Energy, is I believe compelling evidence of their viability. My knowledge, of course, is most extensive as it relates to the SISO proposal, and my comments will emphasize the merits of our effort.

Our grant is in the nature of a research and development feasibility study grant and no part of it is to be used for construction or as a cooperative loan agreement. It is, however, by the terms presented to us by the DOE a repayable grant. That grant is now included within a portion of the funds which we have been indirectly informed may be subject to the rescission order relating to said second round grants.

It is our understanding that the administration and other interested public officials have expressed the intent not to do away with government funding of energy research and development. Our feasibility study is in this research and development category.

Still, it appears that a serious effort to deny the grant is underway. We hardly need point out that we have expended thousands of dollars and hundreds of hours on this project since we were informed in December of 1980 that this research and development feasibility study grant had been awarded.

We would like for the appropriate officials to be informed that our company believes that we are a short distance away from being able to produce substantial and significant quantities of high grade shale oil from the shale oil deposits in the Clark, Scott and Jennings county area of Southern Indiana. Based upon the award to us of this grant, of which we were notified in December 1980, we have set in motion the studies and testing which must be done preliminary to going into production. We have purchased a 535 acre plant site in Clark County, Indiana, and have sufficient shale oil leases to feedstock a 50,000 barrel-per-day shale oil plant for 50 years. We have other leases in the same area for future expansion and development of a series of other 50,000 barrel-per-day plants. Our technological development can be utilized throughout the United States.

Being a small business comprised of Southern Indiana businessmen intent on producing shale oil at the earliest possible date, we want to make known to the interested persons that we sincerely believe further delaying or preventing the development of this readily available oil source is a critical error for the following specific reasons:

1. A 50,000 barrel-per-day plant can be in full production within four years, and significant quantities can be produced within 2 years.

2. A large oil company has attempted to enter into negotiations to purchase Southern Indiana Shale Oil Company's oil shale leases. In addition, they are seeking to obtain leases to shale bearing land surrounding our lease holdings. This large oil company has indicated to potential lease sellers that it does not intend to start shale oil production for ten years. On the other hand, our plan is to start production in two to four years. Thus, if our project cannot be implemented in the near future due to lack of feasibility study funds, and, if a large oil company were to take over the shale resource, then shale oil production would be delayed for six years or more. In addition, the possibility exists that the large oil company might sit on the shale resource for its own internal economic reasons and delay eastern shale production indefinitely.

3. The oil resulting from this operation produces a primarily high-quality jet fuel, home heating oil and diesel fuel, and gasoline, with the remaining products being those available from standard refining of crude oil.

4. The DOD and DOE have gone on record in support of producing shale oil as a mobility fuel particularly well suited to the nation's defense requirements. In that regard, we would encourage you to read testimony provided by Ruth M. Davis, before the Subcommittee on Economic Stabilization, Committee on Banking, Finance, and Urban Affairs, U.S. House of Representatives, March 3, 1981. In addition, there is an unusual defense aspect to the oil produced from the eastern Devonion shales because tests indicate that when burned as jet fuel it produces a very low infra-red reading that is more difficult to detect by radar than is jet fuel produced from petroleum and western shale. Eastern shale oil is, therefore, particularly well-suited for military use.

5. The end product is a light weight crude that will pour at 40 degrees below zero. It is a sweet crude and very low in pollutants. It does not present the problems of processing as does the oil found in the totally different shales of the western states, which are very thick, hard to process, and result in several major environmental problems.

6. The thickness of the eastern shales in our plant area exceed 100 feet and are capable of producing 20 gallons per ton of top quality crude with a potential per-acre yield of 134,000 barrels. Large areas do not have to be involved in the mining process at any given time and full reclamation is possible because the spent shales are not contaminated and have only been changed in that they have been reduced to approximately 2"-3" size and can be replaced in the excavated areas with the overburden and full reclamation successfully accomplished.

We ask you to consider that the withdrawing of funding for the second round of alternative fuels projects en masse, without consideration of the merits of the research and development feasibility studies, is not only ill-advised, but in the case of our project will delay on-line production of badly-needed oil, from a new source, and in the very near future. Removing feasibility funds at this critical stage, and after large amounts of time and money have already been expended on the basis of the award of the grant, seems to us to ignore the acute short supply of liquid fuels produced in this country, our dependence on foreign nations in that regard, and the need to increase production of alternate liquid fuels in the near future.

We believe it has also been ignored, by those who have criticized these grants, that this is a repayable funding and that when SISO goes into production a repayment plan to the government must be instituted. We not only recognize this obligation, but we have always felt that that is both proper and possible.

A number of the things for which the grant must be expended relate to environmental and socioeconomic studies and compliance with Federal and state requirements and regulations. One reason we were granted DOE funds was so that we could fully comply with government requirements. We have no objection to this, and I point it out only to indicate another reason why these funds are so badly needed in order to speed the shale oil project forward to production.

In light of the stated position of the DOD that development of domestic shale oil production is in the national security interest, it appears that the Administration's blanket rescission of the second round alternative fuel grants, as they relate to feasibility studies, is in conflict with important national objectives. It also bears mentioning that these feasibility study costs are based on 1980 contracts and that, if they were to be renegotiated or delayed, the cost of each of these research and development studies would obviously substantially increase and the delay in shale oil production could hardly be justified.

The funds which constitute the grant relating to our company's award, and the awards for the other research and development feasibility studies, had been mandated by previous action of Congress and were a part of a 1980 solicitation. The stated objective of the DOE to our company when we submitted our particular proposal was that winners would be those companies that had the potential for production of alternative energy in the largest possible quantity at the earliest possible date. We know that we fit squarely within this objective.

If research and development funds were readily available from private financial sources, the logic and merits of the rescission action might be better understood. Such, however, is not the case. Until the research and development work is complete so that a company can advance beyond that state of its development, there simply is not any readily available capital from private sources. Feasibility studies do not represent a good investment to the private capital market. Investors want to see the feasibility studies first. How then can this important work be accomplished if the government will not make these repayable grants to companies whose intended work is found to have high potential in terms of the nation's energy needs.

Economy in this particular area at the expense of national security ignores the cause of the problem, eliminates the cure and claims to do it in the best interest of the public. It seems we are killing the good with the bad. One is reminded of the answer Constantine made while ordering the entire population of a city to be destroyed. He was asked why the good were to be destroyed with the bad. His answer was to kill them all and let the devil claim his own. Hopefully, the present Administration is not taking this position with regard to matters of national security and energy policy.

We would respectfully ask that serious consideration be given to retaining those grants contained within the second round of alternative fuel projects of the DOE which relate to feasibility studies. They consist of approximately $90 million of the $300 million total. Financing for these feasibility studies is not available in the marketplace, at least to the extent that they have been granted to small businesses such as Southern Indiana Shale Oil Co., Inc., who do not have the vast resources of the large oil companies at their disposal.